FINANCIAL TIMES

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WEDNESDAY MARCH 10 1999

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Scheme to restore confidence actually undermines it
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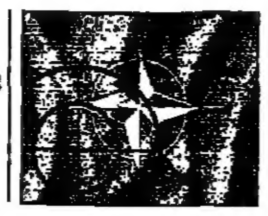

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WORLD NEWS

French police round up Basque terror suspects

French police yesterday arrested the alleged head of the military wing of the Basque separatist movement Eta and five other members. The most dramatic action taken against the group since last September's ceasefire in Spain came as Spanish prime minister José María Aznar visited Paris. **Europe, Page 2**

Holbrooke to press Milosevic
Veteran US negotiator Richard Holbrooke will today urge Slobodan Milosevic, the Yugoslav president, to give up his hardline position before Kosovo peace talks resume on Monday. **Europe, Page 2**

Solana suggests aid for Balkans
Nato secretary general Javier Solana wants the west to offer the Balkans political and economic benefits as well as military security. **Nato, Page 3; Editorial Comment, Page 13**

'Mr Yen' set to move on
Eisuke Sakakibara, known as "Mr Yen" for his reputed influence over the foreign exchange markets, is expected to leave his post as Japan's vice-minister of finance for international affairs this summer. **Page 14**

Khmer Rouge chief charged
Cambodia laid charges against Khmer Rouge chief Ta Mok, making him the first member of the group set to answer directly for the deaths of some 1.7m of his countrymen.

French blood trial ends
A French court acquitted former prime minister Laurent Fabius and one of his ex-ministers in an Aids-related case involving tainted blood. **Europe, Page 2**

Bomb blast hits German show
A bomb damaged a World War Two exhibition in the German city of Saarbrücken that has angered far-right groups with its claim that ordinary German soldiers took part in Nazi crimes.

India-Pakistan deal close
India and Pakistan are close to an agreement that would mark a big improvement in their relations. Only details are said to need settling before they agree a cross-border electricity deal. **Asia, Page 6**

Iranian president visits Italy
Iranian president Mohammad Khatami began a state visit to Italy, seen as opening a new epoch in relations between the Islamic state and the west. **The smiling face of Iran, Page 13**

Ecuador crisis deepens
Banks were shut for the second day running in Ecuador and labour unions called a general strike. **Americas, Page 5**

UK chancellor cuts taxes
The UK government slashed taxes to the lowest levels in a generation as finance minister Gordon Brown unveiled what he called "a Budget for Britain to succeed in the new economy and lead in the new century." **British economy, Page 8**

Garlic farmers on the march
Spanish garlic farmers plan to demand European Union action to block rising imports of Chinese garlic. Spain is Europe's leading garlic producer.

BUSINESS NEWS

Telecom Italia may grant new voting rights in bid battle

Telecom Italia is considering enfranchising its non-voting savings shareholders as part of its defence against Olivetti's €53bn ($57bn) hostile bid. The move could make Telecom Italia a much harder target for Olivetti to swallow. **Companies and markets, Page 15; Lex, Page 14; Analysis, Page 16**

Ahold, Dutch supermarkets group, built on its US presence with a $1.75bn agreement to buy Pathmark Stores, which runs 132 outlets around New York. **Companies and markets, Page 15**

Endesa, Spain's leading power group, will have a second opportunity later this month to gain outright control of Enersis of Chile, its main investment target in Latin America. **International companies, Page 16**

A single stock market to trade the shares of Europe's top 300 companies moved closer when the London and Frankfurt stock exchanges unveiled plans to harmonise share trading. **Companies and markets, Page 15**

Fiat, the Italian motor manufacturer, said it would soon issue a €1bn five-year loan to take advantage of favourable market conditions. **International companies, Page 16**

De Beers, South African diamond group announced a halving of its total net profit last year to $617m from $1.23bn in 1997. **International companies, Page 17**

Microsoft is to announce a partnership with China Telecom and the Chinese government in a project linking more than 40 government ministries to the internet. **Asia news, Page 6**

Andersen Consulting shrugged off any effects of its separation from sister firm Arthur Andersen with a 25 per cent surge in 1998 global revenues to $8.3bn. **International companies, Page 17**

Germany's main energy utilities pulled out of "consensus" talks with the government on setting a timetable for the closure of the country's nuclear power stations. **European news, Page 2**

Gucci president Domenico De Sole has agreed to reopen negotiations with French luxury goods group LVMH in a bid to resolve their legal battle. **International companies, Page 17**

British American Tobacco, which next week publishes details of its proposed £5.28bn ($8.5bn) takeover of Rothmans International, said its underlying performance was positive in spite of a 16 per cent fall in profits. **Companies and markets, Page 15; Zurich adds charge, Page 17**

Roche chairman Fritz Gerber plans to step down in 2001 and hand over the Swiss group's chairmanship to chief executive Franz Humer. **International companies, Page 16**

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BRITAIN, SWEDEN, DENMARK AND ITALY THREATEN TO FORCE THROUGH LIBERALISATION

Ultimatum to Brussels on milk reform

By Michael Smith in Brussels

Four European Union countries yesterday threatened to force through full liberalisation of the union's milk market next year unless other governments agreed to its reform.

The warning came as EU farm ministers, meeting in Brussels, criticised proposals by Germany that would dilute a European Commission blueprint for wide-ranging changes to the common agricultural policy.

Diplomats said chances were rising for a deal this week and it was likely to be closer to the commission's proposals than those of the German government.

The commission wants to cut guaranteed prices for beef, cereals and milk by 30, 20 and 15 per cent respectively to enable the EU to enlarge eastwards and increase exports.

Last week Germany shocked fellow governments by suggesting the cuts be limited to 20 per cent, 10 per cent and nil to save money. Price cuts are expensive because the EU is committed to paying farmers compensation for them. Germany said plans to lift production-limiting milk quotas should be shelved.

Nick Brown, UK agriculture minister, said yesterday Britain, Sweden, Denmark and Italy were not prepared to accept the status quo on milk and, in the absence of reform, would block a continuation of current quota and price arrangements, which end next April.

"It is not my preferred option," said Mr Brown. "My over-riding objective is a workable reform. But I am not willing to vote for the continuation of quotas if milk remains unreformed." The governments of Sweden, Denmark and Italy agreed, he said.

The production-limiting milk quotas regime was introduced in 1984 and has remained unchanged since.

Diplomats said yesterday that one option was to delay completion of milk reforms by two years to 2006. Some countries could agree a lower price cut than the commission has suggested on beef – with 20 per cent one possibility – although most wanted to stick to 20 per cent on cereals.

Germany, in its role as EU president, was yesterday talking with the commission on a compromise to present to farm ministers on CAP reform today. Officials said the compromise would draw on suggestions from all countries including its own.

German agriculture minister Karl-Heinz Funke, right, talks to European farm commissioner Franz Fischler before a meeting in Brussels yesterday

Several ministers said yesterday that Bonn's dilution proposals – made in the name of Germany's farm ministry and not the presidency – were unacceptable.

Loyola de Palacio, Spanish agriculture minister, said she could not agree to the German proposals. "We need to do a proper reform," she said. Joe Walsh, Irish farm minister, said the German paper did not form the basis for a compromise.

France's Jean Glavany has welcomed Germany's proposals, having consistently argued that the commission's proposals are too radical and are unnecessary.

Yesterday Mr Glavany adopted a more conciliatory tone, suggesting a deal could be achieved by the end of the week.

Asked if delaying milk reform could be part of the deal, he said: "If we really want to make a mistake, the later the better".

EU and US make first moves to resolve banana war

By Guy de Jonquières in London and Peter Norman in Strasbourg

The US and the European Union appeared to be edging towards an attempt to settle their conflict over trade in bananas last night that would avert a showdown in the World Trade Organisation.

A senior EU official said that the European Commission planned a high-level diplomatic approach to the US in the next 48 hours to determine whether it was "in the market for a deal".

He said Brussels believed the dispute could be settled before a WTO panel ruled on it later this month or early next, provided President Bill Clinton's administration was ready to sell a deal to Congress.

Sir Leon Brittan, trade commissioner, told the European parliament in Strasbourg that the Commission was urgently seeking a solution and had begun informal exploratory talks with Washington. Rita Hayes, US ambassador, said in Geneva that the talks had yielded some progress.

Robert Mallett, deputy US commerce secretary, added to hopes of a breakthrough. He said in Rome there was a "window of opportunity" for negotiating a solution but it was up to the EU to make an acceptable proposal.

The conflict was brought to a head last week when the US began implementing a threat to impose sanctions on more than $500m (€459) of European exports. It said the EU had not complied with a 1997 WTO ruling against its banana regime, which favours African, Caribbean and Pacific (ACP) imports.

Although the regime has been modified, Washington says it still discriminates against US distributors of Latin American fruit. The EU says the US sanctions are illegal.

EU officials said they and the US had gone a long way towards identifying the basis for a possible settlement when Peter Scher, US special trade ambassador, visited Brussels 10 days ago.

"The talks clarified what the US might need, and we made clear how far we might be able to move," an EU official said.

US officials were less positive, saying Mr Scher had made several proposals but the Commission had appeared to resist them.

RJR Nabisco sells global tobacco arm

By Andrew Edgecliffe-Johnson in New York

RJR Nabisco stunned analysts yesterday by selling its international tobacco business for $8bn to Japan Tobacco. The move paves the way for a separation of its food and US tobacco businesses, which some had thought impossible.

RJR Nabisco, which has Camel cigarettes and Oreo cookies among its brands, headed off shareholder pressure for a break-up by saying it would spin off shares in the domestic tobacco business to shareholders.

Japan Tobacco, which controls four-fifths of its domestic market but has a limited overseas presence, is paying about 30 per cent more for RJR International than analysts had thought it might fetch.

Its offer, which includes taking on $200m of RJR International's debt, is thought to have trumped bids from Philip Morris of the US, Seita of France and Tabacalera of Spain. Philip Morris said it examined the business "thoroughly", but was constrained by tax and antitrust problems.

As well as businesses spanning Asia and Eastern Europe, Japan Tobacco will take the international rights to Camel, Winston and Salem cigarettes.

Nyren Scott Malden of Credit Suisse First Boston said: "This price is amazing. This valuation benchmark could be used to up ratings across the sector."

Japan Tobacco is paying 15 times operating cash flow, almost twice the multiple BAT Industries paid for Rothmans.

Shares in RJR Nabisco were up $⅞ to $29½ in afternoon trading. Analysts said the market had previously placed a negative valuation on its tobacco assets, and feared a break-up was impossible, because of the threat of smoking-related litigation.

The tax-free spin-off of shares in RJ Reynolds Tobacco, the domestic cigarettes business, will leave RJR Nabisco as a holding company for its 80.6 per cent stake in Nabisco Holdings, its food division, which already has a separate New York Stock Exchange listing.

The separation will not, however, insulate Nabisco from future tobacco litigation against the parent company – analysts had feared that the threat of "fraudulent conveyance" claims against RJR Nabisco could prevent a break-up of the group.

Steven Goldstone, RJR Nabisco's chairman and chief executive, said the food and tobacco businesses would "best be able to achieve their full potential under separate ownership structures".

The group would also reap "substantial" cost savings.

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BAT still upbeat, Page 15

Sony restructuring plan lifts shares 9%

By Michiyo Nakamoto in Tokyo

Shares of Sony jumped 9 per cent yesterday after the leading electronics and entertainment group unveiled an aggressive restructuring plan that would see the loss of 17,000 jobs, 10 per cent of it worldwide workforce, and the closure of 15 of its 70 factories.

The plan is aimed at refocusing Sony's traditional electronics businesses, which have been suffering from the strength of the yen and product price erosion, on internet opportunities. It is part of a far-reaching re-organisation aimed at ensuring survival in an increasingly competitive and fast-moving market.

"This is not a mere re-organisation. It is the only way for the Sony group to remain a young and active group in the 21st century," said Norio Ohga, chairman and chief executive.

Nobuyuki Idei, president, said: "Over the next three years, Sony will invest aggressively so that our electronics business, which is our core business, can evolve to best meet the needs of a network-centric world," but added "We want to look at those business areas that we don't need."

The electronics group, which provides about 60 per cent of total revenues, will remain the biggest revenue earner and one of the group's three main business pillars, together with entertainment and insurance and finance businesses. But the re-organisation will enable Sony to consolidate and assume greater control over those units that are critical for the shift of focus.

As part of that move, Sony is taking three of its listed subsidiaries – Sony Music Entertainment (Japan), Sony Chemicals and Sony Precision Technology – back into the group as wholly-owned subsidiaries. In the fast-moving age of the internet, "speed is very important", said Mr Idei.

Within the electronics group, the existing operations will be consolidated into three segments focused on networks – the home network company, the personal IT network company and the core technology and network company.

Sony Computer Entertainment – which provided more than a third of Sony's operating profits in the nine months to December – will no longer be independent but part of this group.

"Sony's short-term problems have not disappeared, but its growth potential has increased," said Hitoshi Kuriyama at Merrill Lynch in Tokyo.

Japan wakes up, Page 17

WORLD MARKETS

STOCK MARKET INDICES		
New York Lunchtime		
Dow Jones Ind Av	9785.61	(+58.00)
NASDAQ Composite	2423.57	(+25.95)
Europe and Far East		
CAC40	4159.80	(-16.17)
DAX	4758.46	(-30.23)
FTSE 100	6237.7	(+28.9)
FTSE Eurotop 300	1239.35	(+6.84)
Nikkei	15096.70	(+317.65)
US Lunchtime RATES		
Federal Funds	4.75%	
3-mth Treas Bills: Yld	4.595%	
Long Bond	95 3/16	
Yield	5.582%	
OTHER RATES		
UK: 3-mo Interbank	5 3/8%	(5 11/16%)
UK: 10 yr Gilt	109.24	(109.73)
Euro Euribor	3.067%	(3.093%)
Germany: 10 yr Bund	97.11	(97.65)
Japan: 10 yr JGB	100.768	(101.369)
NORTH SEA OIL (Argus)		
Brent Dated	$11.27	(11.535)

GOLD		
New York: Comex	$292.4	(291.7)
London:	$292.45	(289.55
DOLLAR		
New York: Lunchtime		
£	1.6185	
€	0.9189	
SFr	1.4673	
Y	121.1	
London:		
£	1.6148	(1.6076)
€	0.9185	(0.9189)
SFr	1.4649	(1.4639)
Y	121.37	(121.925)
Tokyo Close		Y 121.5
EURO (London)		
$	1.0888	(1.0883)
£	0.6742	(0.6769)
Y	132.42	(132.685)
SFr	1.5949	(1.5931)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325 (€1.96)
Finland	FMk13.00 (€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00 (€2.13)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.60
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£60.00
Greece	Dr500	Netherlands	Fl 4.80 (€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

BASQUE SEPARATISTS CROSS-BORDER SECURITY CO-OPERATION GROWS BETWEEN FRANCE AND SPAIN

French police round up Eta suspects

By Robert Graham in Paris and Tom Burns in Madrid

French police yesterday rounded up the suspected head of the military wing of Eta, the Basque separatist movement, along with five other members, in the most dramatic action taken against the group since a ceasefire came into effect in Spain last year.

The move coincided with a visit to the French capital by José María Aznar, the Spanish prime minister. It also underscored France's determination to help the Spanish authorities prevent Eta reorganising its structures during the ceasefire that began last September.

The alleged head of Eta's military arm, Javier Arizcuren-Ruiz, "Kantauri", was detained along with three others in an hotel in the 11th district of Paris. Two more Eta members were picked up in a flat in the 15th district, which police said was being used as a logistical base. All six were armed, but the anti-terrorist police involved in the operation reported no shots being exchanged.

Lionel Jospin, (right) France's prime minister, meets his Spanish counterpart José María Aznar in Paris yesterday. French police yesterday arrested Javier Arizcuren-Ruiz (far right), the suspected head of the military wing of the Basque separatist group Eta AP

French judicial authorities were yesterday expecting Spain to make a formal extradition request for the six arrested persons, five men and a woman.

The round-up was preceded by a visit last Friday to Paris by the Spanish interior minister, Jaime Mayor Oreja. He is understood to have expressed to Jean-Pierre Chevènement, his French counterpart, the concerns of Spanish intelligence that Eta was taking advantage of the ceasefire to rebuild its military organisation, damaged by infiltration and earlier arrests.

Two weeks ago, the separatist group had said it reserved the right to self-defence and to "act in order to maintain necessary provisions". French and Spanish intelligence have recently monitored a number of car robberies in France that have been carried out by Eta activists. The vehicles were believed to have been used for Eta's logistical operations, raising fears that the separatists were preparing some action.

Among those arrested was understood to be a member of Eta's so-called "Donosti" commando unit, active in bloody terrorists actions in the Basque country.

Eta's military wing has consistently used France as a safe haven for its personnel. However, close Franco-Spanish security co-operation has made it increasingly difficult to operate undetected on French territory. Some 60 Eta members are serving sentences in French jails, and the justice ministry has declined to move them to prisons close to the Spanish border.

The peace process in the Spanish Basque country is being closely watched by the French, as it is expected to have a significant political and economic impact on their side of the border. Already there have been calls to set up a new administrative *département* for the French Basque country, carved out of the present Aquitaine.

KOSOVO CONFLICT YUGOSLAV PRESIDENT UNDER PRESSURE OVER PEACE DEAL

Holbrooke to press Milosevic

By Guy Dinmore in Belgrade

Veteran US negotiator Richard Holbrooke, following where several European *foreign ministers have failed* before him, will attempt today to persuade Slobodan Milosevic, the Yugoslav president, to back down from his hardline position before Kosovo peace talks resume in Paris next Monday.

The US State Department said Mr Holbrooke would press Belgrade to accept in full the agreement drafted during 17 days of talks in France last month. The deal provides for broad autonomy for the Serbian province and its ethnic Albanian majority, as well as 28,000 Nato troops to keep the peace.

Mr Milosevic has rejected both elements and over the past month has sent away *the foreign ministers of* Britain, Norway and Germany empty-handed. European diplomats were concerned that Mr Holbrooke had been given leeway by Madeleine Albright, US secretary of state, to cut a deal in Belgrade that they too will be forced to accept.

But they also recognised that Mr Holbrooke, who negotiated an end to the Bosnian civil war, was the only man Mr Milosevic would deal with. On his last trip to Belgrade, Chris Hill, the chief US mediator at last month's talks did not even get an audience.

"The Yugoslav side has been tough and uncompromising. *Meanwhile, there is* fighting which concerns us greatly in parts of Kosovo." Mr Holbrooke said on arrival. He made no direct reference to Washington's repeated threats of Nato air strikes should Belgrade block a peace deal but said he would warn Mr Milosevic of the US "view of the consequences" if the situation did not improve dramatically.

Mr Holbrooke's mild choice of words reflects serious divisions among European governments over using air strikes to force a political settlement.

Last October, after a government offensive that created 300,000 refugees and *killed many civilians,* Nato's threat carried credibility, allowing Mr Holbrooke to persuade Mr Milosevic to adhere to a ceasefire, reduce his forces in Kosovo and accept 2,000 unarmed monitors. "That credibility is no longer there," one European diplomat commented. Also at stake is the credibility of Mr Holbrooke himself as he struggles to win political support for his nomination as ambassador to the UN.

Renewed fighting yesterday between Serbian security forces and ethnic Albanian rebels underlined the parlous state of the ceasefire. Mr Milosevic has also sent thousands of extra *troops into Kosovo in breach of the October agreement.*

Mr Holbrooke's ability to exert pressure on Mr Milosevic has been weakened by the Kosovo Liberation Army (KLA), which has also refused to sign the agreement. The State Department said Mr Hill had received a commitment to sign by the KLA leadership on Monday. But the rebels' official news agency has made no mention of this, warning instead that Serbian attacks had jeopardised the peace process.

Romania pressed on debt refinance

By Arkady Ostrovsky in London and Joe Cook in Bucharest

The International Monetary Fund is stepping up pressure on Romania to seek refinancing of $863m of its external debt which falls due later this year, a move which could result in the country's default on its international bonds.

Emmanuel Zervoudakis, head of the IMF mission for Romania, said the release of the IMF financing package, which could be about $450m this year, needed to stabilise its economy, depended on Romania's ability to renegotiate at least 80 per cent of its international bond payments falling due in May and June.

Mr Zervoudakis said the IMF had advised Romania to seek refinancing of its international bonds from Nomura and Merrill Lynch, the original bond underwriters.

"We should not be faced with a situation where the money from the IMF would be used to repay private creditors," he said.

However, bankers said international bonds could not be rolled over or refinanced in the same way as bank loans, because they were tradeable instruments.

"The IMF seems to assume that banks keep those bonds on their books, but they have been sold to investors a long time ago and the burden will be on the bond holder and not on their underwriters," said Juan Del Azar, managing director for emerging markets trading at Merrill Lynch.

Andrew Kenningham, emerging markets analyst at Merrill Lynch, said the only way to restructure an international bond was to default in order to reschedule payments to bond holders.

Adrian Vasilescu, a director of the National Bank of Romania, said: "Romania has always paid its debts and will continue to do so. *As a last resort, our strategy* is to roll over external debt, not to postpone it."

CONSENSUS NEGOTIATIONS UTILITIES WANT RESOLUTION OF TAX DISPUTE FIRST

German energy sector pulls out of nuclear power talks

By Ralph Atkins in Bonn

Germany's energy industry yesterday pulled out of talks with the government on setting a timetable for the closure of the country's nuclear power stations.

Chairmen of the main energy utilities withdrew from so-called "consensus" talks with the government, pending resolution of a separate dispute over the tax burden they face as a result of legislation introduced by Oskar Lafontaine, finance minister.

After a meeting between industry leaders and Chancellor Gerhard Schröder, Dietmar Kuhnt, chairman of RWE, the Essen-based power and industrial group, said that only after the tax issues had been considered could discussions take place on nuclear power. The government said it expected the talks to resume after Easter, but the energy companies were privately sceptical.

Mr Schröder is seeking industry agreement on a phased shutdown of Germany's 19 nuclear power stations. The Bonn government had already been forced into a series of retreats before yesterday's meeting.

Last month, the government dropped plans for an early ban on the reprocessing of nuclear waste following strong protests from the energy industry. Later, Jürgen Trittin, the Green environment minister, shelved the remainder of his proposed legislation that paved the way for a shutdown.

However, yesterday's meeting highlighted the difficulties Mr Schröder still faces in reaching an amicable agreement on nuclear power. Veba, the Dusseldorf-based energy and industry group, described the meeting's atmosphere as "hard".

Failure to reach agreement would further heighten tension between Mr Schröder and his coalition partner, the Green party.

The finance ministry is to conduct talks with the energy industry about the impact of changes to the tax treatment of their massive reserves. The utilities estimate they face paying an additional DM25bn (€12.78bn, $13.92bn) tax as a result of Mr Lafontaine's reforms, due to obtain their final parliamentary approval on March 19. The finance ministry estimates the correct figure to be about DM10bn.

● German unemployment fell unexpectedly by 6,000 to 4.076m, or 10.5 per cent of the workforce, last month after seasonal adjustment, according to figures released yesterday. The fall followed a revised drop of 66,000 in January.

However, the latest figures did little to assuage fears that unemployment will remain around the current level for most of this year, with recent high wage settlements increasing labour costs.

Unadjusted unemployment, which receives more attention in Germany, rose 9,700 in February to 4.465m. Separate figures from the federal statistics office showed employment rose slightly last year to 33.92m – after falling continually since 1991.

Haider closer to election victory

By Eric Frey in Vienna

Austria's far-right party leader Jörg Haider appears likely to be elected governor of the province of Carinthia, in what would amount to a dramatic political comeback.

Mr Haider's Freedom party won a decisive victory in local elections in Carinthia last Sunday, but he still requires votes from his political opponents if he is to win when the new regional assembly elects a governor within the next month.

The Social Democratic party and the conservative People's party, which make up Austria's ruling coalition and suffered heavy losses in Sunday's vote, yesterday reaffirmed their opposition to Mr Haider's candidacy. But they also indicated they would not feel able to prevent the charismatic populist from winning the governorship.

Both parties fear a backlash if they should be seen to deny the election's clear winner the spoils of victory. The People's party is expected to boycott the deciding vote and so leave Mr Haider with a majority.

The Freedom party last Sunday increased its share of the vote by 9 percentage points to 42 per cent and for the first time surpassed the Social Democrats, which fell back 4.5 points to 33 per cent.

The People's Party, which held the post of governor for eight years, dropped from 24 to 21 per cent.

Mr Haider's victory in Carinthia has put the ruling coalition in Vienna on the defensive ahead of nationwide elections later this year. The government of Chancellor Viktor Klima is now under pressure to offer significant tax cuts in the tax reform package planned for this year.

It may also take a harder line against a quick enlargement of the European Union, which Mr Haider opposes on the grounds that it would result in a flood of immigrants and threaten jobs in Austria.

Former French PM cleared in infected blood case

By Robert Graham in Paris

A special French court yesterday cleared Laurent Fabius, a former Socialist prime minister, of all responsibility for blood supplies contaminated at the onset of the Aids epidemic in the early 1980s.

Sitting for the first time to *try crimes alleged against* serving members of government, the Court of Justice of the Republic also acquitted Georgina Dufoix, social affairs minister in Mr Fabius' 1985 cabinet.

However, Edmond Hervé, the cabinet's health minister, was found guilty of failing to implement screening of blood donors and for not recalling for tests persons who had been given infected blood transfusions.

A total of 1,348 *haemophiliacs* were infected by blood transfusions during the 1980s, of whom 625 died. A further 4,000 to 5,000 persons given blood transfusions were infected – giving France a much higher rate of HIV infection than any other country in Europe.

Despite pinning responsibility to Mr Hervé for the deaths of two haemophiliacs during the period in 1985 when his ministry should have introduced proper screening measures on blood supplies, the former minister *was given no sentence. This,* coupled with the absolution of Mr Fabius, provoked unease among representatives of the victims, who were unable to take part in the proceedings.

The judgment now opens the way for a final case in the criminal courts against some 30 senior civil servants on counts of manslaughter, negligence and endangering public health for their alleged role in the sorry tale *of France's contaminated* blood scandal.

Most of these civil servants were called as witnesses in the Fabius trial. But some either declined to appear or limited their testimony to reading prepared statements to avoid incriminating themselves.

As a result the trial did little to draw out evidence and the families of victims felt the accused were given too much protection. This, they said yesterday, had allowed Mr Fabius, currently speaker of the national assembly, to emerge fully vindicated.

Lawyers for Mr Fabius were able to demonstrate he was unaware of efforts by his own advisers to delay the introduction of proper screening until a test developed by Diagnostics Pasteur, the French laboratory, was ready to compete with one already produced by Abbott of the US.

The verdict had been widely anticipated when at *the end of the three-week* long hearing the prosecution said there was no case to answer. The health and social affairs ministers were nevertheless criticised for failing to give proper importance to the health issues raised by the Aids scare.

The court was composed of three professional judges and 12 parliamentarians – seven from the right and five from the left. Three judges voted for Mr Fabius to be found guilty, 12 for his acquittal. In the case of Ms Dufoix, a minority of five judges sought her conviction for failing to pay sufficient attention to the warning signs of the risks arising from infected blood.

As health minister, Mr Hervé was most directly concerned with the Aids epidemic. But one of the reasons for which eight of the 15 judges backed his conviction was a belief he had devoted too much time to his political activities as mayor of Rennes and not enough to *his ministry.*

Despite the lenient verdict, politicians yesterday voiced fears that too little had been done to clarify their future responsibility for administrative decisions.

FINANCIAL TIMES
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NEWS DIGEST

EUROPEAN PARLIAMENT

UK under new pressure over EU budget rebate

Britain yesterday came under fresh political pressure to give up its European Union budget rebate, when the European Parliament's budget committee advised MEPs it should be phased out by the time new member countries joined the EU in the coming decade.

A committee report, drawn up by Jutta Haug, a German Social Democrat, said the rebate was agreed at a time when agricultural spending accounted for more that 70 per cent of the EU budget compared with less than 50 per cent today.

MEPs will vote on the proposal tomorrow. However, the parliament only has a consultative role on budgetary issues and the impact of the committee report may be weakened by its recommendation that 50 per cent of the EU's common agricultural policy should be "co-financed" by national budgets. That would leave national government's footing 50 per cent of the farm bill and undermine the UK's case for a substantial rebate.

In recent days, the German presidency of the EU has conceded that co-financing is politically unworkable because of French objections. **Peter Norman, Strasbourg**

GERMAN CITIZENSHIP REFORMS

Deal agreed on outline bill

Otto Schily, Germany's interior minister, has agreed with the opposition Free Democrats on the outline of a bill modernising German citizenship rules, a senior parliamentarian said yesterday.

Chancellor Gerhard Schröder was forced to backtrack on his citizenship reform plans and seek a legislative compromise after a state election defeat cost his center-left government its majority in the upper house of parliament, where the states are represented.

The apparent accord between Mr Schröder's Social Democrats and the center-right Free Democrats increased pressure on the Greens, the junior government partner, who are holding out for a more ambitious overhaul of the 1913 citizenship law.

Rainer Brüderle, a Free Democrat parliamentarian negotiating with Mr Schily, said both had agreed that the new draft should allow dual nationality for children at birth but require them to choose one as young adults.

Annelie Buntenbach of the Greens said that model was "very difficult". Mr Schröder's cabinet is scheduled to approve the bill next week. The government had wanted to make dual citizenship the rule rather than the exception in a bid to integrate more of Germany's 7.3m foreigners, about a quarter of them Turks. **AP, Bonn**

TURKISH ELECTIONS

Ecevit vows to fight delay

Bülent Ecevit, Turkish prime minister, said yesterday he would fight attempts to postpone national parliamentary elections planned for April, arguing any delay would bring chaos. Parliament will hold a special session on Saturday at the behest of 116 deputies dubbed the "disgruntled ones" by the media. Many have been struck from party lists by powerful party leaders or put so far down they cannot be re-elected.

Mr Ecevit said their petition amounted to a "civilian coup attempt". His words carried a particular poignancy in a country familiar with military interventions. "Politics in general and the economy [would] be pitched into chaos," he said. "We shall do all in our power to reverse this attempt at a delay."

Arithmetic militates against the disgruntled ones. They may not get the 184 deputies they need for a quorum and are most unlikely to gain the majority necessary to put off the polls. **Reuters, Ankara**

GENERAL KIDNAPPED

Chechnya challenge for Yeltsin

Boris Yeltsin, the Russian president, yesterday struggled to deal with a fresh challenge to his authority, the kidnapping of a Russian general in the breakaway region of Chechnya.

Major-General Gennady Shpigun, the Interior Ministry's representative in Chechnya, was abducted last Friday by gunmen who leapt out of the cargo bay of his Moscow-bound aircraft at an airport in Grozny, the Chechen capital. "This is a direct challenge," Vadim Gustov, the deputy premier said. "What would happen if they seized a general in America or any other country?" Mr Yeltsin was scheduled to see Mr Stepashin yesterday to discuss the kidnapping.

Sergei Stepashin, interior minister, had set a harsh tone in dealings with Chechnya on Monday, saying Moscow's patience was running out and it *might* impose sanctions on Chechnya or attack rebel bases. In Grozny, the spokesman for Asian Maskhadov, the Chechen President made it clear he was unhappy and that there was anger on both sides. **Reuters, Moscow**

FINNISH AIR TRAFFIC CONTROLLERS

Strikers to end stoppage

Finnish air traffic controllers have agreed to end a five-week strike that has crippled the country's domestic airline network and disrupted international services following a revised pay offer from Ilmailulaitos, the civil aviation authority.

Finland's 250 controllers voted to accept a 13 per cent pay rise over three years, even though they had been seeking a 26 per cent increase and benefits including company cars. The strike had threatened to overshadow the last two weeks of campaigning before Finland's March 21 *general election, in which the ruling coalition is urging* continued wage moderation. It also prompted warnings from Finnair, the country's flag carrier, that it was losing FM 55m (€9.25m, $10.07m) a week because of the disruption. Ilmailulaitos, which originally offered the controllers a 12 per cent rise, said the dispute had been resolved shortly before the second two-day shutdown of Helsinki's Vantaa airport. Some politicians have urged the government to introduce legislation following the election compelling specialist workers, such as air traffic controllers, to take part in binding industrial arbitration in the future. **Tim Burt, Stockholm**

FARM AGENCY CORRUPTION PROBE

Polish minister urged to quit

Poland's agriculture minister came under renewed pressure to resign yesterday after a newspaper said a state auditors' report had linked an agency he had headed to financial irregularities.

The daily Gazeta Wyborcza called Jacek Janiszewski to step down on the basis of what it said were leaks from the report. The supreme auditing chamber confirmed it had investigated the Farm Property Agency in Szczecin province, which Mr Janiszewski had headed between 1992-1995. But it declined to give details, saying its report had not yet been finalised. **Warsaw, Reuters**

NATO

EASTERN EXPANSION ADMISSION OF POLAND, CZECH REPUBLIC AND HUNGARY THIS WEEK GIVES NEW URGENCY TO EFFORTS TO UPGRADE MILITARY APPARATUS

Western companies race for defence prize

Weapons makers have been targeting central and eastern Europe in recognition that it will be the marketplace of the future, **Alexander Nicoll** reports. Tomorrow FT writers examine preparations in Hungary and the Czech Republic for accession to Nato

"It's a big prize," says an executive from one western defence company. The prize is supplying former Warsaw Pact countries with their next generation of weapons. But it is still some way off.

Western weapons makers have been circling central and eastern Europe since the end of the Cold War.

They have been seeking to build contacts in governments and companies with the aim of being in a strong position when decisions on new contracts – especially aircraft purchases – are made.

The admission of Poland, the Czech Republic and Hungary to Nato this week will give new urgency to the three countries' efforts to upgrade their old Soviet bloc military apparatus so that it is compatible with that of other Nato allies.

However, Nato has made it clear it does not expect new members to bust fragile budgets with purchases of shiny new weapons.

Instead, it wants them to begin by improving existing military infrastructure.

"We've said they should focus on the software before the hardware," a Nato official says.

"The important thing is that we are able to interact with them on a day-to-day basis."

To this end, the new members will get access this week to a $1.5bn fund under Nato's security investment programme.

The money will be used initially for purposes such as improving secure communications and other nuts-and-bolts requirements for a working military alliance.

Nato's next priority will be upgrading air defence systems of the new members, with equipment including modern radar.

New members will also be helped with programmes to reform the structure of armed forces, in which Soviet-era tanks and artillery predominate, to make them more flexible and deployable in keeping with Nato's modern-day missions such as in Bosnia.

All this will produce important, though perhaps low-profile business for defence companies, particularly in the area of "C4I" – command, control, communications, computers and intelligence.

But the plum to which most of them are looking forward is the replacement of ageing Russian-made aircraft. All the new Nato entrants – and several other countries – have fleets of old *MiGs* which are difficult to maintain and, because of financial constraints, are mostly in the air for small numbers of hours each year.

The Czech Republic and Poland are at the top of most western companies' lists. Boeing, British Aerospace, DaimlerChrysler Aerospace, Dassault, Lockheed Martin and Saab have all been scrambling for footholds there, as well as electronics suppliers such as GEC-Marconi.

The companies are conscious that for the buyers, aircraft orders are means of building high-technology industry and skilled jobs.

Good industrial offset packages, involving technology transfer which builds aerospace and other industries, will be just as important as the capabilities of the aircraft.

Prague is expected to issue a letter this month inviting bids to supply 36 fighter aircraft at an estimated cost of $1.6bn, to replace 40 MiG-21s which are old and thought to be in a poor state of repair.

Candidates are likely to be the BAe/Saab Gripen, Boeing's F/A-18, Dassault's Mirage and Lockheed's F-16.

Boeing last year enhanced its position in this race by spending Kc950m ($27.5m) on a 34 per cent stake in Aero Vodochody, a state-owned maker of light aircraft, which makes the Czech L-159 fighter-trainer and also supplies parts for Boeing civil aircraft.

Poland has taken the first step in modernising its air force, but it is a move intended to put off a competition for new purchases.

In February, it signed a contract with Daimler-Chrysler Aerospace (Dasa) to upgrade 22 MiG-29 aircraft to Nato standards.

Dasa had already done the same to 23 Mig29s inherited by the Luftwaffe from East Germany, and is in talks with Hungary, Romania, Bulgaria and Slovakia for similar deals – the Czechs have sold their MiG-29s.

BAe established a strong foothold last year when it made PZL Mielec, a Polish aircraft manufacturer, a supplier of airframe parts for its Hawk jet trainer.

The tendency of defence contracts to be long drawn-out affairs suggests decisions by both Prague and Warsaw on contract awards may still be years away. But marketing efforts by defence companies are likely to gain momentum.

Sir Charles Masefield, vice-chairman of GEC and former head of the UK ministry of defence's export sales organisation, says that the expansion of Nato "is generating much more rapid requirements than anybody thought".

Though the US air force has been offering to lease second-hand fighters, Lockheed Martin also sees business coming from small beginnings. "We recognised that the number one need was to build domestic infrastructure, while also needing items such as fighters," says a Lockheed executive in Fort Worth, Texas, home of the F-16.

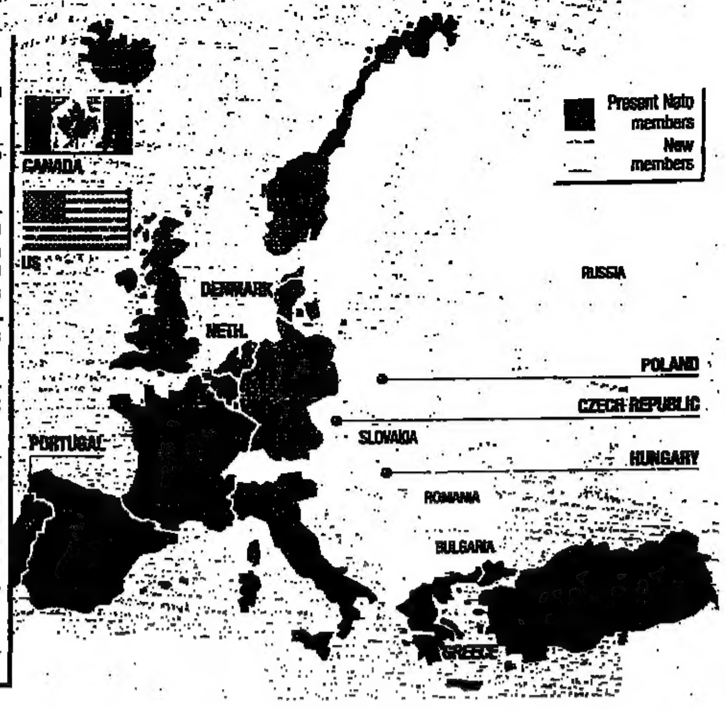
"We see this region as a very significant market place of the future."

UK's Nato plans, Page 8

A growing alliance

	New members			New markets		
	Czech Republic	Hungary	Poland	Bulgaria	Romania	Slovakia
1997 defence budget	$987m	$666m	$3.1bn	$395m	$782m	$414m
Manpower	59,100 including 35,000 conscripts	43,300 including 27,500 conscripts	240,650 including 141,600 conscripts	101,500 including 49,300 conscripts	219,650 including 133,300 conscripts	45,450 including 13,600 conscripts
Tanks	938	835	1,727	1,475	1,253	478
Artillery	754	840	1,580	1,744	1,291	382
Aircraft	199 inc. MiG-21, Su-22	114 inc. MiG-21, MiG-29	325 inc. MiG-21, MiG-23, MiG-29, Su-22	217 inc. MiG-21, MiG-23, MiG-29, Su-22, Su-25	362 inc. MiG-21, MiG-23, MiG-29	121 inc. MiG-21, MiG-29, Su-22, Su-25
Helicopters	36		36	86		

Source: IISS The Military Balance 1998/99



Solana proposes Balkan aid deal

By David Buchan

Javier Solana, Nato secretary general, yesterday proposed that the west offer the Balkan region a package of political and economic benefits, as well as military security, in what he called a "partnership for prosperity".

"Without a comprehensive approach to the region's problems, we will never get beyond treating its symptoms," Mr Solana told a London conference on Nato's 50th anniversary.

The Nato chief said the starting point had to be Belgrade's agreement to a Nato-led peacekeeping force to oversee an effective settlement in Kosovo.

If the west could get agreement on this, "we should give a wider signal to the Balkan region of its place in Europe politically and economically", he said.

Mr Solana gave no specifics about his proposed "partnership for prosperity", but it is understood to include some of the offers which European Union leaders have put to President Slobodan Milosevic in recent days.

The EU has said if Belgrade accepts a Nato-led force, it is ready to reverse its Kosovo-related transport and financial sanctions on Yugoslavia, and provide a Kosovo aid fund that could indirectly benefit Serbia.

TURNING POINT IN COUNTRY'S HISTORY

Poland's accession: an end to uncertainty

By Christopher Bobinski in Warsaw

When Poland joins Nato on Friday at a ceremony in the US town of Independence, Missouri, it will mark a turning point in the country's often tragic history, after centuries of turbulent relations with powerful and predatory neighbours.

It will also bring a welcome end to the uncertainties which have faced Poland's defence planners, left without allies after the collapse of the Soviet-dominated Warsaw Pact in the early 1990s.

From now on military strategy, arms decisions and training requirements will be defined by Nato military doctrines.

In the first instance, the demands Nato is making of Poland's dilapidated armed forces are modest and fit well within the limits of its defence budget. This is set this year at around 12bn zlotys ($3.05bn) or 2.1 per cent of gross domestic product.

Around 11.5 per cent of the total budget will be spent on tasks related to Nato membership, including the adaptation of MiG-29 and Sukhoi fighters to enable them to fly in Nato airspace.

The main challenge, initially, has been to ensure that communications equipment is in place to allow contact with Nato command and to permit Polish units to identify Nato aircraft. Poland will also be concentrating on bringing several units up to a standard at which they will be capable of taking part in Nato operations abroad, such as the possible intervention by the alliance in Kosovo.

In coming years the number of troops trained and armed to Nato standards will grow. Other units will be relegated to the status of territorial defence forces which are much cheaper to maintain.

The bulk of spending on new equipment will be put off until next year and the years following. However, US and European defence companies such as Boeing and British Aerospace are *already competing fiercely:* contracts for new fighter aircraft could be awarded by the end of this year, says Romuald Szeremetiew, the deputy defence minister.

The Poles, for their part, are insisting that any deal will have to include commitments by the suppliers to take part in the privatisation of the country's ailing arms industry. They also want successful companies to place work with local industry under "offset" agreements.

Nato membership is revolutionising Poland's armed forces. Their numbers have been cut from 480,000 at the beginning of the 1990s to 240,000 today. Slowly surplus military bases and equipment stockpiles are being reduced and the officer corps cut back to reflect the present size of the armed forces.

The main change, though, the introduction of Nato standards in command and logistic systems, will have wider implications. Bronislaw Komorowski, head of parliament's defence committee, says Poland's defence establishment will be transformed into a force for modernising society as a whole. This will have consequences in coming years as officers and men with language skills and training up to Nato standards return *after military service to* civilian careers.

Oddly, Poles appear to have grown lukewarm about the historic accession to the western military alliance now that it is imminent, perhaps because of the financial cost of the exercise. Almost 40 per cent of those asked in a recent poll how they felt about Nato membership said they were indifferent. There is little outright opposition, however, and those in favour still number just over 50 per cent.

POLISH FOREIGN MINISTER URGES FURTHER EXPANSION

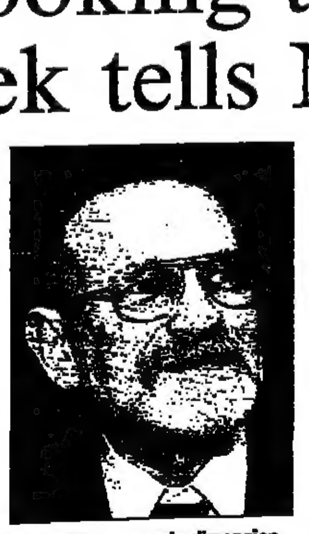
Keep looking to east, Geremek tells Nato

By Stefan Wagstyl and Christopher Bobinski in Warsaw

Nato must keep its doors open to further eastward expansion following this week's entry into the alliance of Poland, the Czech Republic and Hungary, or else risk the creation of a new Iron Curtain, according to Bronislaw Geremek, the Polish foreign minister.

Mr Geremek, in an interview with the FT, said increased economic co-operation would be central to building bridges in central and eastern Europe between Nato members and non-members in the former Soviet bloc, including the three Baltic states and Slovakia, Bulgaria and Romania.

"The Iron Curtain could reappear, albeit in a different geographical location, and cut Europe in two once again," he said. It would be dangerous for the peace and stability of Europe to accept that former Soviet republics – as opposed to the bloc's former satellite states such as Poland – could never join Nato.



Geremek: economic dimension

Mr Geremek said economic links with non-Nato countries could best be built via the European Union and the North American Free Trade Agreement (Nafta).

Poland is thought to be keen to encourage the development of an economic dimension to Nato itself, although it is anxious such proposals should not be seen simply as a request for money from *wealthy* western members of the alliance.

Mr Geremek said for Poland, Nato entry was the "real end of the second world war". Poland had been reunited with its former wartime allies, from whom it had been separated by the Yalta accord. "By joining the world's strongest military alliance, Poland gets not just security but also a sense of security which is also very important."

He warned current EU member states against excessive delays in accepting Poland and other candidate countries. The main problem was a weakening of the political will in favour of enlargement, with EU countries concentrating on their own national interests and not on the wider European interest.

The most important sign of this "nationalistic reaction to the process of unifying Europe", Mr Geremek said, was the recent electoral success of Austrian ultranationalist Jörg Haider in regional polls in Carinthia. Mr Haider takes a tough stand against EU enlargement, warning that it would threaten jobs in Austria.

"I hope this is an isolated case. I hope that the launch of the euro will create a strong European consciousness," said Mr Geremek.

WORLD TRADE

UNCTAD REPORT ON GLOBAL ECONOMY

Rich 'must be ready to pump in liquidity'

By Frances Williams in Geneva

The world's rich nations should consider direct injections of liquidity into developing countries if further financial instability threatens a global recession, says a report from the United Nations Conference on Trade and Development.

As a consequence of financial turmoil in Brazil, world growth is set to be at the low end of gloomy forecasts by the International Monetary Fund, the Organisation for Economic Co-operation and Development and others last year. Growth this year could halve to 1 per cent from an estimated 2 per cent in 1998 and 3.2 per cent in 1997.

The 1999 outlook reflects continued stagnation in Japan, slowing growth in the US and Europe and possible recession in Latin America. Though Asia is expected to do better than in 1998, this is mainly because the economies most affected by the Asian financial crisis have ceased to shrink.

The downside risks to the world economy have also become more acute in recent months. Unctad warns of the possibility of a sharp correction in equity prices in industrial countries coupled with a rise in risk aversion, and hence further declines in capital flows to emerging markets.

The report, prepared for the Association of South-East Asian Nations (Asean), says policymakers in the industrialised world hold the key to global economic recovery, but that imaginative responses are needed to combat the effects of shrivelling financial flows.

While there is plenty of scope in the US, the European Union and Japan to use fiscal expansion to combat economic slowdown, this may not be sufficient on a global scale if the crisis deepens, the report says.

It suggests instead that the EU and Japan "recycle" part of their current account surpluses to cash-starved developing countries through official channels "to raise demand, imports and growth". This could be done in three ways:

- debt relief through a rapid write-off of unpayable official and multilateral debt;
- regional aid plans to pump funds into the crisis-ridden Asian economies;
- a substantial allocation of Special Drawing Rights to developing countries and economies in transition from communism.

Global Economic Conditions and Prospects. Unctad, Palais des Nations, CH-1211 Geneva 10

Music industry seeks to curb internet recorders

By Alice Rawsthorn in London

Record companies have become concerned about the growing availability of inexpensive, easily operable internet recorders, such as the Rio, a $200 product developed by Diamond Multimedia in California.

The music industry is trying to find ways of curbing the rising use of portable recorders that can be used to store and play pirated music posted on unauthorised internet sites. The industry would like the recorders made able to record only authorised material.

The Recording Industry Association of America (RIAA), the body that represents US record labels, mounted an unsuccessful law suit last autumn to stop the Rio from going on sale. Internet piracy is already a serious problem for the music industry. The RIAA and other bodies fear that the availability of devices, such as the Rio, will encourage even more consumers to download pirated music.

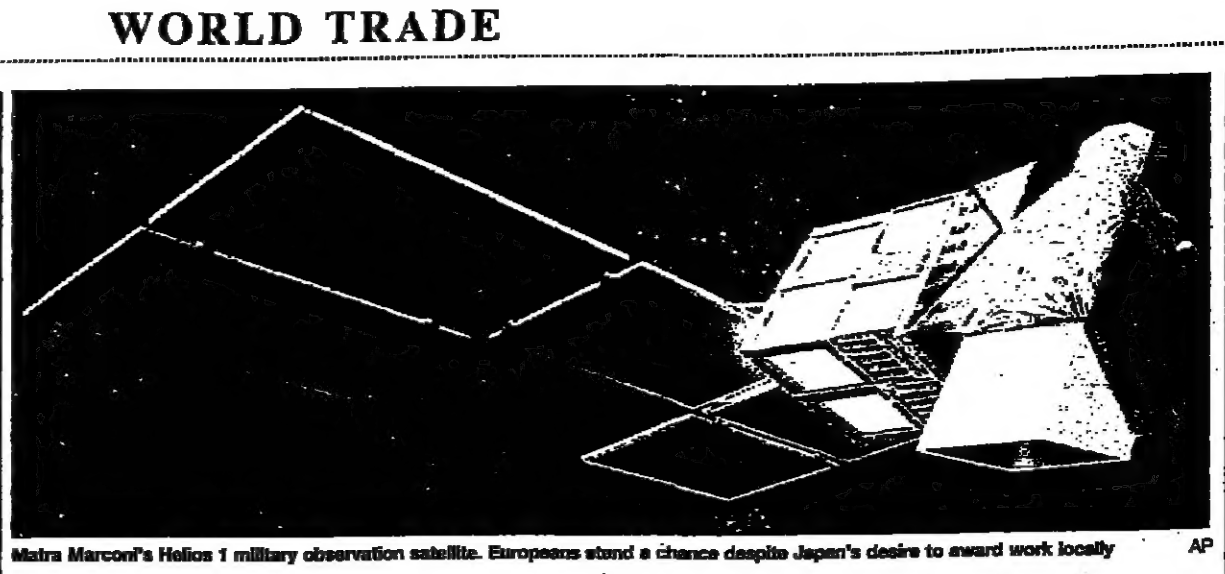
Since the RIAA lost its case, a number of other electronics manufacturers have revealed plans for similar products. The Yepp, a credit card-sized device, will be launched this summer by Samsung of South Korea. Creative, a Singapore-based company, plans to introduce the Nomad, which will be the same size as a cigarette packet and will retail for less than $300.

Having accepted it cannot stop such devices, the music industry is trying to ensure they cannot be used to breach copyright.

The Secure Digital Music Initiative (SDMI), an alliance of RIAA members and technology companies, has set up a group to map out guidelines whereby the software specifications of portable devices will be tailored to prevent them recording and replaying unauthorised material.

At present, most of the songs posted on the internet are illicit versions of copyrighted material by popular acts, such as Lauryn Hill or Robbie Williams. However, more authorised material will become available online when the record companies launch their own internet sales systems this autumn.

The SDMI working group, chaired by Jack Lacy, an executive with AT&T's a2bmusic subsidiary, with representatives of Sony Music and Matsushita, hopes to have agreed the guidelines by the end of June.



Matra Marconi's Helios 1 military observation satellite. Europeans stand a chance despite Japan's desire to award work locally AP

European satellite companies circle over lucrative Japanese surveillance project

Michiyo Nakamoto on the contest for a $1.6bn contract

A group of western businessmen gathered at the Liberal Democratic party's headquarters in Tokyo one day last month. Representing Europe's leading aerospace companies, they had come to market satellite technology to Japan's ruling LDP and government officials. At stake is a Y200bn ($1.6bn) programme to launch four surveillance satellites in 2002.

For Aerospatiale, Matra Marconi Space, Alcatel Space, DaimlerChrysler Aerospace and Thomson CSF, all represented that day, the meeting was a crucial opportunity to press the case for European participation in what could be a lucrative business.

But it will not be easy. The government, which has allocated initial development funds in its 1998 supplementary budget, is hoping to rely on domestic technology to develop and build the satellites.

"This is a problem that has to do with Japan's security, so basically we plan to develop and produce the satellites ourselves," says one official.

The National Space Development Agency of Japan (Nasda), which has guided Japan's national space development effort, has launched a number of its own satellites and already had a plan in place to launch its Advanced Land Observing Satellite (Alos) in 2002. This development work is expected to form the basis for the new satellites.

Amid the general economic gloom, domestic companies such as NEC and Mitsubishi Electric will be desperate to claim a share of new business from a client that has a reputation for offering attractive margins.

But Japan's limited experience in the satellite business, the tight schedule the government faces and cost considerations provide an opportunity for foreign companies with proven expertise.

The plan to launch four satellites was put together hastily last year amid the panic after North Korea launched a rocket over Japanese territory. The Japanese government was embarrassed by its dependence on US military intelligence and clear lack of viable options in case of a missile attack.

The government decided to strengthen its intelligence capabilities by launching the satellites as soon as possible. Since Japan is committed to the "peaceful" use of space, the satellites are to be used for commercial and scientific purposes as well as for military surveillance.

However, if Japan is to keep to its schedule of launching the satellites in 2002, it will almost certainly have to rely on more than home-grown technology. "It is possible for Japan to develop the satellites but there are questions of cost and delivery, which will put foreign companies at an advantage," admits a government official.

It takes four years to build a satellite from an existing design and although Nasda has started work on the Alos, there is no guarantee it will be ready by 2002.

Furthermore, it would be "cost effective to rely on some already developed equipment" and would make for a more reliable programme "to have experienced contractors on board," says Matra Marconi Space, a prime contractor for the Helios satellites, which claims to be "the leading non-US company in earth observation."

More crucially perhaps, there is little guarantee that a Japanese-made satellite could perform the surveillance functions Japan wants.

It wants the satellite to carry a sensor that is able to observe objects on earth as small as 1 metre. There are few companies able to provide that kind of resolution.

Nasda is developing a sensor with 2.5-metre resolution, but this is only planned for completion in 2003. Lockheed Martin, the US company, is launching Ikonos, a commercial satellite with a resolution of 81cm, next month.

Helios-I, a joint effort between France, Italy and Spain launched in 1995, is believed to offer a resolution of 1 metre. Helios-II, scheduled for launch in 2001, is expected to provide a resolution of 50cm, although there are questions about German funding for this Franco-German programme.

Although Nasda has launched four information-gathering satellites in the past, the last one, in 1996, broke down within a year.

Furthermore, while the official stance is that the satellites will be developed and built with domestic technology, "there are international political considerations to take into account," admits one government official.

"We are making a commercial satellite so we will have open competition, according to WTO rules," proclaims the LDP's Mr Nakayama.

Lockheed Martin, which has 40 years experience in the field, would be the natural candidate to participate, given the close defence ties between the US and Japan.

However, the LDP appears to be more actively in touch with the Europeans. Mr Nakayama has not yet been visited by a US delegation.

In spite of its stated intention to use domestic companies, there are signs of indecision. "It might be difficult to meet our goal of choosing the contractors by the end of the fiscal year [in March]," says a government official.

S Korea adjusts steel prices

By John Burton in Seoul

South Korea's Pohang Iron & Steel (Posco) yesterday said it still planned to offer discounts to domestic consumers who buy large volumes of steel, despite a decision to end subsidised prices for local buyers.

Posco, the world's second largest steelmaker, will abolish its dual-pricing policy, under which it supplied steel to export manufacturers at rates lower than those offered to foreign buyers, because of a threatened trade dispute with the US.

Analysts said the move had also been expected because the privatisation this year of state-run Posco would allow it to improve earnings by charging market prices to domestic consumers. Posco reported a record profit in 1998 because of higher overseas sales.

The system of subsidised prices was introduced in the 1970s to boost export competitiveness by offering manufacturers lower prices for steel, petrochemical and textile materials. Posco supplies about 75 per cent of domestic steel demand.

The reduced steel prices were largely based on raw material costs, without taking into consideration foreign exchange rates and overseas steel prices.

US steelmakers have complained the dual-pricing system violates World Trade Organisation rules on subsidies. Robert Fisher, the US deputy trade representative, told officials in Seoul last week that Washington was concerned the dual-pricing system was causing a sharp rise in steel exports to the US. He said Korean steel exports to the US rose 27 per cent in January from December, while steel shipments from Japan, Russia and Brazil fell. Han Duck-soo, South Korea's minister of state for trade, said exports to the US were expected to fall this year as demand elsewhere rose.

INTERNATIONAL

UK presses Sierra Leone peace initiative

By Quentin Peel in Abuja

The British government yesterday urged the democratically elected president of Sierra Leone to sue for peace with the rebel forces that have terrorised the impoverished west African state for the past five years.

Britain is offering the services of its frigate HMS Westminster, currently stationed off Freetown, the Sierra Leonean capital, to provide humanitarian assistance in the ongoing civil war, as a potential location for peace talks.

The initiative was launched yesterday at talks between Robin Cook, the UK foreign secretary, Ahmad Tejan Kabbah, the president of Sierra Leone, and Abdul Rahman Abubakar, the Nigerian president in Abuja.

It came as a detained rebel leader in Freetown, Foday Sankoh, called for a truce between his Revolutionary United Front and the Nigerian-led west African peacekeeping forces.

Yesterday's talks in Nigeria were intended to step up the pressure on Mr Kabbah to negotiate with the rebels, in spite of the brutality with which they have waged the war and the lack of any clear leadership in the field. At the same time, both Britain and Nigeria insist they are maintaining their support for the elected government in Sierra Leone.

The chaos in that country, whose only source of wealth is its diamond mines, currently controlled by the rebel forces, has become a headache both for the UK, as the former colonial power and principal aid donor, and for Nigeria whose troops have been keeping Mr Kabbah in power.

The war is costing Nigeria about $1m a day, when the country is in deep economic crisis and unable to service its $38bn external debt. Nigeria has also lost up to 1,000 soldiers in the conflict.

Olusegun Obasanjo, newly elected to take over as civilian head of state from Gen Abubakar, wants to pull out of Ecomog, the west African peacekeeping force, to which Nigeria has contributed most of the troops. The present Nigerian government wants Britain to get more international support.

Sierra Leone has also proved a political nightmare for Mr Cook, because of the involvement of the British company Sandline in breaking a UN arms embargo to support the Kabbah government, allegedly with the knowledge of UK government officials.

The Foreign Office was sharply criticised by a parliamentary committee for its involvement.

Unscrambling the scramble for Africa

A century ago European nations were competing to carve up Africa, establishing sphères of influence that last to this day. But now the familiar pattern is starting to unravel, writes **Mark Turner**

When France and Britain met in St Malo last December and launched a joint approach to Africa, many observers doubted that more than a century of competition for economic and political influence could suddenly be replaced by co-operation.

Yet this week Robin Cook, the British foreign secretary, and Hubert Védrine, the French foreign minister, are paying the first joint visit to Ghana and the Ivory Coast. In Abidjan, French and British ambassadors to Africa will discuss how to put into practice the St Malo call for policy harmonisation, information exchange and even joint representation where only one partner boasts an outpost.

The new message has yet to get through to everyone. Businessmen and diplomats from both sides of the divide in Africa remain as joyfully suspicious of each other as ever, and take an almost childish glee in each other's difficulties.

This is well demonstrated by the underlying sense of competition which has characterised recent inroads by France into Kenya, the heart of British influence in East Africa, and a parallel British push into the Ivory Coast.

The newly revamped Maison Française in Nairobi – a temple to Parisian chic – is an eloquently high-profile testament to France's push for more influence in East Africa, and is home to large new regional development and research centres.

"We are promoting a real image of contemporary France," says Mehdi Drissi, the centre's energetic director. "We promote our culture through plays, singers, university exchanges. The Alliance Française [language school] here has 5,000 students, making it second worldwide: only New York is ahead."

President Jacques Chirac underlined his country's move beyond traditional boundaries in no uncertain terms when nearly all Anglophone African leaders attended the recent France-Africa summit. France claims that although its commitment to French Africa is as great as ever, it wants to move away from its old concept of the "backyard" and take a more holistic view of the continent.

Half a continent away, the British are making a less colourful but equally vigorous push into the Ivory Coast, West Africa's most vibrant economy. The UK last year was the country's second largest investor, after France, with companies from British Airways and Framlington to Crocodile Machetes moving in over the past few years, and has been raising its profile with trade missions and fairs.

"We want to get away from the idea that somehow there are countries that are outside our interests in West Africa," said Tony Lloyd, the Foreign Office's minister for Africa, on a recent trip to the country.

At the heart of each country's efforts is a recognition that they could be missing out on some big commercial opportunities on the other's patch. France and Britain (to a lesser extent) continue to dominate trade relations with their former colonies, but are making inroads across the divide. In Kenya, exports from both countries have risen considerably over the past five years, with the UK up almost 80 per cent and France up 40 per cent from 1993 to 1997. In the Ivory Coast British exports almost doubled over the same period, albeit from a much lower relative base, while French exports rose by a little over 30 per cent.

The St Malo meeting, however, appears to mark a recognition by both governments that a new scramble for Africa would both be damaging and difficult – especially at a time when the US is making increasing inroads into the continent, and new competition emerges from East Asia and South Africa.

The question is why they are taking a bilateral rather than an European approach, when the EU is becoming more assertive in commerce and politics.

The answer seems to lie in the hands of technocrats who are suspicious of sharing influence with countries with little or no history on the continent, and which hope to capitalise on Franco-British networks to promote their own trade and development strategies.

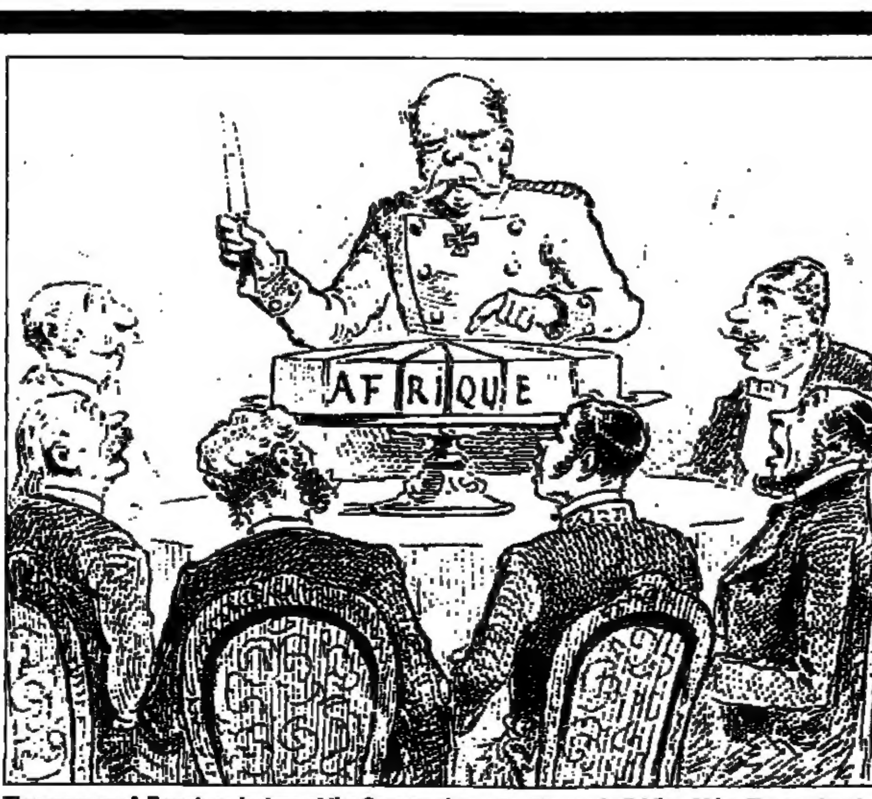
Despite recent cutbacks, France and Britain retain substantial and privileged links to the continent and are loath to see them eroded.

Paris in particular has maintained a strong role as benevolent guardian of former colonies: by direct, although declining, military support (with bases in Djibouti and Chad), unwavering political support for Francophone African leaders, and a guarantee for the currency of 14 countries in central and western Africa, the CFA franc. There are 114,000 French nationals living on the continent, French culture is dominant in West Africa, and Paris is the world's largest contributor of aid to Africa, devoting FFr18.7bn (€2.85bn, $3.1bn) in 1997.

Britain also boasts almost 140,000 nationals in Africa, gave £348m ($560m) in aid from 1996-7, and has improved its ties with African members of the Commonwealth considerably since the days of dispute over how to end apartheid in South Africa. Educational links are strong, and the UK maintains a small military force in Kenya, backed by regular exercises.

If the old rivals do manage to set aside a hundred years of history, and pool their resources on an increasingly troubled and isolated continent, they would offer a formidable opponent to any new upstarts looking for a piece of the pie.

But given the mutual suspicion that remains, it may take more than a few joint visits to cement the alliance.



The carve-up: A French caricature of the German chancellor Bismarck dividing Africa like a cake at the Berlin congress of 1885. Now Britain and France are nibbling the other's portions AKG

NEWS DIGEST

PRESSURE ON KINGDOM'S CURRENCY

Saudi Arabia 'in fresh move to support riyal'

The Saudi Arabian Monetary Agency (Sama) is believed to have intervened this week to support the riyal, the second such move in two weeks. Saudi Arabia's economic problems in a climate of low oil prices have led to pressure on the riyal, with offshore hedge funds short-selling the currency in the hope that the government will devalue. Sama, the kingdom's equivalent of the central bank, first intervened with an estimated $1bn to support the riyal in the summer following the Russian crisis. Intervention about 10 days ago is believed to have been for several hundred million dollars.

According to bankers, most of the short-selling continues to come from hedge funds, although some local companies are hedging against a devaluation. One banker said that the pressure could ease if the central bank explained that it had enough instruments to support the currency. Saudi Arabia has about $60bn in foreign assets. Available statistics show that foreign exchange reserves total only about $7bn, although Sama may not have published their full extent. **Roula Khalaf, London**

INTERNATIONAL TERRORISM

Iran's stance wins praise

Lamberto Dini, Italy's foreign minister, yesterday said there had been a significant reduction in Tehran's support for international terrorism. At the start of the visit to Rome by Iran's President Mohammad Khatami, the first to the west by an Iranian leader in 20 years, Mr Dini said there had been "a strong reduction" by Iran in the financing of terrorist activity in the world. Mr Dini suggested that the change had been brought about because of the reformist course led by Mr Khatami himself.

Mr Khatami yesterday met Oscar Luigi Scalfaro, Italy's head of state, at the Quirinale palace and held talks with senior Italian figures.

Mr Dini said that the Iranian president's visit, which is being undertaken amid very tight security, was being watched "with great interest" in the US, which is still maintaining sanctions on Tehran. **James Blitz, Rome**
Smiling face, Page 13

KIO'S MISSING MILLIONS

Grupo Torras money traced

About $100m allegedly misappropriated from Grupo Torras, the Spanish subsidiary of the Kuwaiti Investment Office, has been traced to personal trusts in the Bahamas set up by Sheikh Fahad Mohammed al Sabah, the former chairman of the KIO, according to new evidence revealed during the London legal action over the company's collapse in 1992.

Lawyers acting for Grupo Torras discovered in December that more than $100m of the $450m misappropriated in total had been paid into a Swiss bank account in the name of Sheikh Fahad. This money has now been traced through New York banks to the Bahamian trust funds and frozen.

The legal action against Sheikh Fahad and other former members of the Grupo Torras senior management has now ended. Judgment is not expected for several months. **John Mason, Law Courts Correspondent, London**

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LOAN AGREEMENT AMBITIOUS POLICY COMMITMENTS HAVE BEEN MADE FOR LATIN AMERICA'S BIGGEST ECONOMY

High stakes for Brazil in IMF deal

By Geoff Dyer in São Paulo

Brazil is no stranger to the ways of the International Monetary Fund. Fourteen loans from the Fund in 40 years bear testament to the country's elusive search for economic stability.

But few of those accords have been as ambitious in policy commitments as the letter of intent the Brazilian government signed on Monday. Few have been as important for Latin America's biggest economy, which has seen its currency lose nearly 40 per cent of its value so far this year.

The stakes are high. If the new policy framework works, Brazil will steer clear of the inflation which once ravaged its economy, and lay the groundwork for high growth in the future.

Brazil's neighbours will sigh with relief and the IMF, assailed over its policies in Asia and Russia and for failing to prevent the January devaluation in Brazil, will be able to notch up a much-needed victory.

But if the new agreement does not quickly restore confidence in Brazil, the effects could be catastrophic.

At the least, the efforts needed to weed inflation out of the economy would require a prolonged recession. The worst-case scenario would bring a combination of galloping inflation and a default on domestic debt.

After a conventional IMF approach to economic stabilisation, the new agreement sets two clear objectives:

■ First, to limit the inflationary impact from the devaluation, in the short term the government aims to use tight monetary policy and IMF money to intervene in the currency market.

■ Second, to prevent the ratio of debt to gross domestic product from exploding, the government will try to engineer substantial budget surpluses (before interest) in each of the next three years.

The price of these goals will be a steep recession, a decline in GDP of 3.5-4 per cent, according to official estimates. Yet, they have won the support of many economists because of what they see as the absence of other options. "There is no alternative," says Mauro Schneider, economist at ING Barings in São Paulo.

The obstacles facing the new plan are considerable. For a start, the two goals of the strategy are contradictory: high interest rates to subdue inflation aggravates the fiscal problem by increasing the debt burden and reducing tax revenues.

The government is well aware of the need to bring down interest rates, both real and nominal, as soon as possible.

Brazil's new floating exchange rate regime also faces a number of technical hurdles. Having abandoned its exchange rate peg, the government says it will now establish an inflation target as the new anchor for policy.

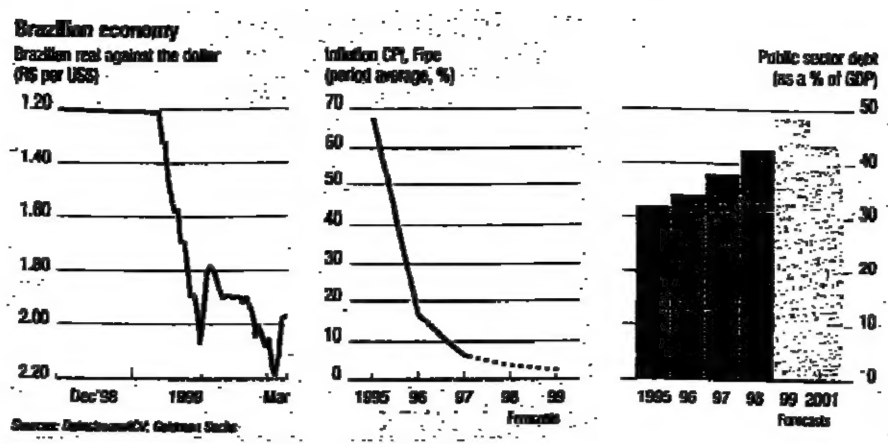
Yet one of the by-products of Brazil's inflationary history is a vast array of price indices, each one explaining a different aspect of economic behaviour.

In February, the Fipe consumer price index recorded inflation of 1.4 per cent, while the IGP-M index said prices had risen by 3.6 per cent in the same period.

Both measures are respected and closely watched. Which one to choose as a target? The central bank's new team of technocrats is still trying to resolve this question.

But the biggest challenge for the new plan is political. Last year Brazil's politicians were asked to accept budget cuts and high interest rates to prevent a devaluation.

Now that the currency has been allowed to float, the politicians are being urged to back new budget savings and, for the time being, even higher interest rates.




Arminio Fraga: admission

Arminio Fraga, the new president of the central bank, admitted that the revised fiscal adjustment being asked of Brazil was "enormous".

All this during a year when the economy is expected to face one of the worst recessions on record. Few democratic political systems would withstand such pressure, even if they did not have Brazil's weak political parties and history of populist posturing.

Yet Brazil's record of breaking past accords means that, in the Darwinian world of today's financial markets, it will be awarded few concessions.

"Mexico and Argentina have actually proved that they can tolerate the pain of such an adjustment when required," says Walter Molano, economist at BCP Securities in the US. "Brazil has not yet demonstrated that ability."

Given the recessionary impact of the new programme, the IMF's critics have been quick to say it will not work.

According to Jeffrey Sachs, the Harvard economics professor, the combination of budget cuts and high interest rates in an already declining economy could be "disastrous". "Being with the IMF is worse that being without it," he told a Brazilian television channel last week.

The plan's only hope of political survival is that the fear of rampant inflation, which reached 2,700 per cent in 1993, will ensure continued political support for the government, despite the inevitable slump in its poll ratings.

This case was powerfully made on Monday by Gustavo Franco, who having resigned as central bank president at the start of the currency crisis, was formally handing over to his successor.

"Inflation is a type of state violence against the citizen," he told the audience. "The restoration of the currency [in 1994] was a reunion with a future that we thought we had lost."

Mr Franco may be blamed by many for Brazil's present ills. But these rousing words did win him a standing ovation.

IMF reforms have 'met Congress demands'

By Nancy Dunne in Washington

US officials told a Senate banking subcommittee yesterday that the International Monetary Fund had made important reforms "broadly consistent" with those demanded by Congress when it approved a $17.9bn infusion of funds last year.

If Congress is displeased with IMF policy, it should direct its concerns to Robert Rubin, the Treasury secretary, and his deputy Larry Summers, said Gerald O'Driscoll of the conservative Heritage Foundation, which has opposed the Fund. "The US Treasury department exercises influence over the IMF policy far in excess of the explicit percentage vote possessed by the US," he said. "IMF policy does not and will not deviate in any important or fundamental way from the policy of the US Treasury."

He said IMF policies usually generated a nationalist and populist backlash. These set in motion "a political dynamic which makes it difficult to pronounce confidently that the participation of the IMF in the domestic reform process is helpful".

This explained why the IMF must frequently revise its initial conditions. "IMF conditionality first brings economic pain and then political reaction. Political reaction slows reform, which leads the IMF to revise its conditions so as to conform to political reality in the debtor country."

Timothy Geithner, Treasury undersecretary for international affairs, said the IMF, on US urging, had become "a more transparent and accountable institution", releasing many of the main documents on IMF programmes as well as policy papers and information on the Fund's financial position.

However, before he arrived to testify, the banking subcommittee met four IMF officials behind closed doors.

Commenting on the problems of Asian economies, Mr Geithner said South Korea had undertaken a wide range of policy measures to liberalise its trade and investment regimes. Among these were a reduction of tariffs, elimination of export subsidies and simplification and harmonisation of import certification procedures. It had also agreed to stop directing commercial bank lending decisions.

Mr Geithner's optimism on Korean reforms was countered by Catherine Mann, a senior fellow at the Institute for International Economics. Korea, she said, had "made relative little progress" towards reforms that would create a more market-oriented economy. Institutional reforms, such as bankruptcy law and the social safety net, had affected the smaller *chaebol*, or conglomerates, the most, leaving large *chaebol* unscathed.

She said consolidation of smaller and weaker banks into large banks presents the appearance of a stronger financial sector.

"But merging the banks and using government funds to buy back bad loans, does not create a stronger institutional culture for credit discipline," she said.

Cuba seeks to put spotlight on bomb trial

By Pascal Fletcher in Havana

Cuba's communist government, which last week blocked foreign scrutiny of a trial of internal dissidents, has actively sought world attention for the trial this week of a Salvadorean facing the death penalty for allegedly planting bombs in Havana that killed an Italian tourist.

On March 1, foreign diplomats and journalists were unceremoniously ordered by police to stay far away from the cramped courtroom in west Havana where four leading opponents of the government were tried on "sedition" charges in a one-day closed hearing.

On Monday a week later, Havana's foreign press corps were invited to attend a spacious court especially set up in a fortress built by the Spanish in colonial times, to cover the start of the trial of a 27-year-old Salvadorean bodyguard and former military cadet accused of "terrorism".

Cuban television showed long extracts from the trial, including a carefully scripted declaration of repentance and plea for mercy from Raúl Ernesto Cruz León, the accused.

In the dissidents' trial only the prosecution case was made public inside Cuba. The accused were subjected to an official campaign of vilification branding them as US-backed "traitors" and "mercenaries". They had criticised aspects of Cuba's one-party political system and called for a boycott of elections. They face jail terms of up to six years and are still awaiting sentencing.

President Fidel Castro has repeatedly held up the case of the Salvadorean as evidence that the communist-ruled island continues to be the target of "terrorist" attacks launched by anti-Castro Cuban exile groups based in the US.

"The difference is clear. Last week's secretive trial involved internal questioning of the Cuban government and the Revolution. This week's public one is the David and Goliath scenario, Cuba as the victim of US-sponsored terrorism," said one Havana-based foreign diplomat.

Mr Cruz has admitted he was recruited and paid El Salvador to plant bombs in five tourist hotels and a restaurant in Cuba in July and September of 1997. In these blasts, an Italian visitor was killed and 11 other people were injured.

Mr Cruz, who faces a Cuban firing squad if sentenced to death, said he had acted purely out of economic motives because he needed money to pay off debts.

Ecuador crisis grows as banks stay closed

By Justine Newsome in Quito and Richard Lapper in London

Ecuador's political and economic crisis deepened yesterday when the government closed the country's banks for a second successive day and labour unions called a general strike.

The compulsory bank holiday follows a sharp fall in bank deposits in recent weeks. Jorge Egas, bank superintendent, announced the move late on Monday, and said it was to "preserve the stability of bank reserves, limit the withdrawals that could affect the domestic financial system, and avoid pressure on the currency and the continued rise in prices". The domestic foreign exchange market was also closed.

The government is scheduled to announce economic measures tomorrow.

Devaluation of the currency, the sucre, has added to the troubles of the banking system as many Ecuadoreans borrowed dollars to buy cars and domestic appliances and have seen the cost of repayments rise sharply.

Mr Egas said the banking move was taken to allow the launch this week of economic measures aimed at stabilising the financial system and fostering growth. However, it was criticised by bankers.

"Confidence has been seriously weakened by the closure. The government has lost control of the country," said Carlos Larreategui, president of the private banks' association.

Cuts in public sector redundancy payments and a build-up of wage arrears have been the rallying point for a general strike called for today and tomorrow by labour unions.

Bus drivers, who agreed late on Monday to support the strike, have been hit hard by the devaluation and called on the government to freeze the sucre value of dollar-denominated loans taken out to buy buses.

The government has threatened to send troops to run electricity plants and oil installations. Strikes which paralyse basic services were outlawed last year in constitutional reforms.

Meanwhile, fears are growing in international markets that Ecuador may be forced to default on its external debt.

In London, Ecuador's Brady bonds rose in early trading but are still trading at average yields of more than 30 per cent.

The price index fell by nearly 8 per cent on Monday.

"The implied risk of default has increased substantially," said Peter West, chief Latin American economist at Banco Bilbao Vizcaya, the Spanish bank. "The whole macro-economic situation is dire and the financial system is in extreme difficulty and so one should not underestimate the risk."

If Ecuador were to default on its Brady bonds it would be the first country to do so since more than a dozen debtors restructured bad commercial debt in the early 1990s.

Ecuador has the worst debt indicators in Latin America, with a debt to gross domestic product ratio of 82 per cent.

Productivity of US workers up

The productivity of US workers soared in late 1998 at the fastest rate in six years, the government said yesterday, **Reuters reports from Washington.**

Productivity, measuring the amount of goods and services that workers produce per hour, grew by 4.6 per cent in the quarter ended in December, the Labour Department said. It revised upwards its previous estimate, which had pegged fourth-quarter productivity growth at 3.7 per cent.

The latest figures for non-farm productivity showed it recording its biggest gain since a 6.2 per cent increase in the fourth quarter of 1992.

The revision incorporates data recently released by the Commerce Department showing that the gross domestic product of the US economy boomed at a 6.1 per cent rate late last year.

Together, the GDP and productivity reports show an economy moving forward at full speed but with a lack of inflationary pressures. Consistent with that picture, unit-labour costs fell 1.1 per cent in the fourth quarter, the department said.

Economists in a Reuters survey had expected fourth-quarter 1998 productivity to be revised to a 4.2 per cent gain. Unit-labour costs had been expected to decline by 0.8 per cent.

State spending boosts Chinese output

By James Kynge in Beijing

China's industrial production grew by 10.6 per cent in the first two months this year, mainly because of increased state spending on infrastructure, it announced yesterday.

But this robust performance masked severe budgetary constraints, which may limit China's ability to continue Keynesian fiscal spending to drive economic growth.

The revised 8 per cent year-on-year rise in industrial output for January was an indication that February's figure exceeded 10 per cent, the official Xinhua news agency said. Industrial output in all of 1998 rose 8.9 per cent.

Economists said the climb in industrial production should not be taken as a signal that China's economic slowdown was over. In fact, the worst was yet to come, said senior Chinese officials.

Most of the output has been generated by spending stimulated by a RMB100bn ($12bn) infrastructure bond issue last year, some RMB58bn of which remains to be spent this year. But this amount is too small to have more than a marginal and short-lived locomotive effect on industry. For example, the value of industrial production in the first two months was RMB280bn, greater than the entire bond issue.

China may also be reluctant to issue more large infrastructure bond tranches this year because the cost of servicing existing domestic and foreign debts is already too high – at RMB235bn, compared with total central budget revenues of RMB548.3bn in 1998.

Nevertheless, plans for rolling out infrastructure appear to be going ahead. China's railways ministry plans to issue RMB3.4bn in three-year bonds to fund railway construction projects.

● The People's Bank of China, or central bank, announced a surprise rise in interest rates on US and Hong Kong dollar deposits yesterday. The rate for one-year US dollar deposits rose to 4.4375 per cent from 3.7500 per cent. The move may have been aimed at curbing capital flight from China by raising the attractiveness of deposits in domestic banks, observers said. But the risk is that Chinese would try harder to change their renminbi into US dollars, thereby applying downward pressure on the local unit.

● China's National People's Congress, or parliament, yesterday adopted amendments which elevate the official standing of private enterprise. The changes describe private business as an "important component" of the formerly communist economy rather than merely an appendage.

India to halve international telephone rates

By Mark Nicholson in New Delhi

India's telecoms regulator yesterday announced sweeping cuts in most telephone rates, including the halving of international call prices within three years, in the sector's most comprehensive overhaul of tariffs.

In a phased three-year "rebalancing" of virtually all existing telecoms tariffs and rental rates, the two-year-old Telecom Regulatory Authority conservatively estimated that the cuts and revisions would boost call volumes in India by 10 per cent within a year and increase overall sector revenues.

Among the main changes, which will begin to take effect from April 1, the regulator said long-distance tariffs would fall by around 45 per cent over three years, and international tariffs by 50 per cent over the period.

Local call charge rates were revised, rather than simply increased, from a range of Rs0.8-Rs1.20 (2-3 cents) to Rs0.6-Rs1.4, while rental charges on fixed lines will rise on average from Rs75-Rs190 a month to Rs120-Rs250 ($2.82-$5.88). Cellphone tariffs were also sharply cut, while rental charges increased to Rs600 a month from the current Rs156.

The net effect of the revisions will be to cut overall charges for heavy telephone users while modestly increasing overall costs for average urban users. This will sharply reverse the current position, which effectively taxes heavy telephone users in India.

Rural users, and those who make fewer than 500 calls a month, together making up 70 per cent of telephone users, will end up paying less than the average.

The regulatory authority said in a statement that the tariff revisions were only a first step in reforming the sector's overall pricing.

The aim was to offer a "transparent framework" for tariff determination, to improve consumer choices and flexibility to service providers – which since 1994 include private companies – and to move Indian prices in line with international norms.

It promised to review the results of the reforms after a year, and adjust if necessary.

The tariff reforms will also directly affect VSNL, the publicly quoted but state-owned monopoly provider of international telecoms, along with MTNL, another quoted public operator which provides fixed line services in Bombay and Delhi.

India's cross-border power deal reaches final hurdle

By Mark Nicholson in New Delhi

Nawaz Sharif (right) and Atal Bihari Vajpayee at the Lahore summit: power deals add flesh to gestures of rapprochement AP

An unprecedented deal between India and Pakistan for the cross-border sale of electricity needs only final agreement on tariffs, according to Indian officials, who claim otherwise "the deal is done".

The agreement would mark a milestone in improved relations between south Asia's newly nuclear rivals after the pomp and rhetoric of last month's prime ministerial summit in Lahore. It may also signal a tentative but noteworthy shift in Pakistan's diplomatic approach towards its neighbour.

A third round of bilateral talks on the proposed sale of 300MW of Pakistani power to India are expected to resume later this month. These will cover pricing and payment details, according to officials, who say most technical issues involved in linking the two countries' power grids were resolved in earlier rounds.

Indian officials also say that the "political atmosphere is favourable" for an agreement, following the recent thaw in bilateral relations between the traditionally chilly rivals, which culminated in last month's prime ministerial summit in Lahore.

Prospects for the power deal – and perhaps other future steps towards closer bilateral relations – have been improved by a politically delicate shift in Pakistani policy towards India.

Islamabad is now apparently prepared to allow some progress on a series of modest bilateral initiatives, such as power and the establishment of the Delhi-Lahore bus link celebrated at the Lahore summit, without insisting that such moves be directly linked to progress on the intractable issue of Jammu and Kashmir. Islamabad consistently insists that this is the "core" bilateral issue.

Successive Pakistani governments refused to countenance more modest moves to improve relations unless there was at least simultaneous progress on Kashmir.

Pakistani officials appear to have edged closer to India's equally long-stated position, that addressing the deep-rooted dispute over Kashmir may prove more manageable after earlier moves designed to improve trust between the two sides.

"If we deal with these issues, the Kashmir issue is easier to deal with – they are to improve the atmosphere to deal with the last issue," Sartaj Aziz, Pakistan's foreign minister, said in the margins of the recent Lahore summit. His views have been echoed privately by other senior Pakistani officials.

A power deal may prove early fruit of this tentative rapprochement. In earlier talks, the two sides resolved the problem of linking Pakistan's power grid with India's, which suffers wider fluctuations in power. It was agreed to isolate a Pakistani substation from its domestic grid, enabling it to be the link with India.

Officials from both sides also agreed that Pakistan would at first supply 300MW of power, though this could rise quickly to 600MW and eventually to 2,000MW depending on the amount of surplus power arising from private power projects under construction in Pakistan.

Pricing, however, remains unresolved. Pakistan has insisted the tariff should be set at a level commensurate with the price of power from the latest private power plant to enter its domestic grid – around 7 cents per kilowatt hour. India has said it would be prepared to pay only the marginal cost of Pakistan's surplus power plus a small surcharge. This would place the tariff around 3 cents to 4 cents a unit. The two sides have also to agree what component of the overall price would be paid in foreign currency. India is looking to buy power over at least 10 years.

But despite currently wide differences over price, Indian officials say they are confident agreement will be reached. "The deal is done, the parameters of the deal are definite," says Pradip Baijal, the Indian power ministry official leading the negotiations.

NEWS DIGEST

PREPARATIONS FOR REFERENDUM

Proposals for a republic are unveiled in Canberra

An Australian president would be chosen by the prime minister from public nominations under draft legislation unveiled yesterday on the proposed transition to a republic.

The president would be head of state and all references in the constitution to the British Queen, the current head of state, would be removed if November's national referendum approves the move to a republic.

Under the draft legislation, a president would need approval by two-thirds of the combined parliament. The president would serve a five-year term and could be sacked by the prime minister if parliament approved the dismissal within 30 days.

The referendum will involve two separate ballot papers. To succeed, a referendum requires a national majority and a majority in four states. **Gwen Robinson, Sydney**

PRESSURE ON PARLIAMENT

Thailand pursues reform drive

Thailand's cabinet yesterday resolved to extend indefinitely the current parliamentary session, due to end on March 22, in order to push through long delayed economic, legal and political reforms.

The decision came after a committee of the country's appointed Senate made significant changes to a crucial bankruptcy bill that are unacceptable to the government and the International Monetary Fund. The full Senate will meet on Friday to ratify the changes. If they do so, the bill and other legal changes could be delayed by up to six months before the government can pass its own version.

The extension of the parliamentary session puts pressure on senators to follow the government's original bankruptcy bill and gives the government time to work with the Senate to reach mutually acceptable modifications of other legal changes dealing with foreclosure and land leases.

The next ordinary session of parliament is scheduled to begin in late June. Delay of the key legislation until that time could jeopardise further disbursement of funds from the IMF and World Bank. **Ted Bardacke, Bangkok**

INDIAN ECONOMY

Growth forecast 'optimistic'

India's economy will post slower growth this fiscal year than the officially estimated GDP growth rate of 5.8 per cent, according to a leading independent think tank, which calls the government's early estimates of agricultural output "optimistic".

The Centre for Monitoring Indian Economy, the Bombay-based economics research agency, estimated growth this fiscal year, ending this month, at closer to 4.5 per cent. It bases its lower assessment on likely agricultural production growth of 1.5 per cent, against the government's estimate of 5.3 per cent.

The agency pointed out that grain production had grown only 1.5 per cent this year, meaning other farm products would have to rise in output by over 10 per cent to justify government figures. Growth in non-foodgrains sectors, it said, had averaged no more than 5 per cent throughout this decade. **Mark Nicholson, New Delhi**

HK AND BEIJING DEALS GATES ALLIES WITH HK TELECOM AND CHINESE GOVERNMENT

Microsoft to put Beijing online

By Rahul Jacob in Hong Kong and Louise Kehoe in San Francisco

Microsoft, the world's largest software company, will today announce a partnership with China Telecom and the Chinese government's State Economic and Trade Commission, in a project that involves linking government ministries to the internet.

Bill Gates, Microsoft chairman, who is due to sign the deal today in Shenzhen, said the project was an important milestone in the construction of China's information infrastructure.

More than 40 government ministries are involved in the project, which is designed to promote a new "service orientation" by the ministries, Microsoft said.

As part of the partnership, Microsoft will donate a wide variety of software as well as technical support and consulting services.

Earlier, Mr Gates spoke in Hong Kong, where he announced an on-line services alliance with Hongkong Telecom the territory's dominant telephone service. The deal will allow computer users to rent software on a one-off basis, download films and play interactive video games. "What we've got here is the internet in a more powerful form than 99 per cent of the computer users in the world have access to," said Mr Gates.

In the race to position itself for the convergence of the PC and TV, Microsoft has been buying stakes in cable companies in the US. Yesterday's deal allows it to combine with Hongkong Telecom to deliver high-speed broadband services of Hong Kong's state-of-the-art telephone network. In March 1998, Hong Kong became the first city in the world to deliver fully interactive TV, including home shopping and video on demand.

Analysts said the deal offered Microsoft a high density population laboratory to test new applications and also gave Hongkong Telecom's interactive multimedia service a range of new functions. "Microsoft is excited to expedite the convergence of PC, TV and telecommunications technologies with Hongkong Telecom," said Mr Gates.

Hongkong Telecom said the new services could be used, for example, by students to access lectures and would enable businesses to train-on-demand using the PC. "What Microsoft is getting is someone to act as a 'betasite' for services it is testing from a technological and consumer standpoint," said Lloyd Fisher, Salomon Smith Barney telecom analyst.

South Korea looks to smaller businesses to lift it from recession and create jobs

John Burton reports the conglomerates, once the engine of the economy, have been replaced in favour by more specialist groups

The chairmen of South Korea's big conglomerates, or *chaebol*, were once the honoured guests at the Blue House, the presidential mansion. Now it is the turn of small business.

At one recent gathering, President Kim Dae-jung was host to the world's leading makers of tents, motorcycle helmets and nail clippers. "We want to encourage the growth of small business by recognising small Korean companies that are already global leaders," said a presidential aide.

The government aims to encourage competitive niche players in a nation where big was considered beautiful until last year's economic crisis, when the *chaebol* were blamed for poor investment decisions. A more balanced industrial structure would reduce the *chaebol's* overwhelming market and financial dominance, while promoting specialised companies with the flexibility to respond rapidly to global economic trends.

"Small business will be the salvation of the Korean economy. There are plenty of success stories and there will be a lot more if economic restructuring succeeds," said Peter Irving, head of London-based Atlantis Investment Management, which invests in small and medium-sized listed Korean companies.

He cites the example of Medison, a medical equipment company, that has become a leading global manufacturer of ultrasound systems. Other promising sectors for entrepreneurs include electronics and pharmaceuticals.

These industries, along with food companies, have become the favourite investments among four foreign-managed equity funds established by the government last year to pump $1.3bn into small and medium-sized businesses.

Small companies bore the brunt of last year's financial crisis and bankruptcies among them climbed by a third to nearly 23,000. "If you were a small business, you just disappeared," said Stephen Marvin, research head at Jardine Fleming in Seoul.

The government has quadrupled spending on the small business sector to Won4,000bn ($3.2bn), including providing cheap loans and venture start-up capital.

The goal is to create more jobs as South Korea's unemployment rate hits nearly 9 per cent from less than 3 per cent a year ago. "Seventy per cent of the budget increase in the first half of this year is devoted to creating jobs, with the emphasis on developing small businesses," said Lee Kyu-sung, the finance minister.

The goal is to create more jobs as unemployment hits 9 per cent

Korea's 2.6m small and medium-sized companies already employ nearly 80 per cent of the nation's workforce.

But critics say the government's policy does not go enough. "The missing element of corporate reform is a decisive shift in the balance between the *chaebol* and small and medium-sized enterprises. The government keeps throwing more money at failed *chaebol* rather than small companies," said Jang Ha-sung, a professor of finance at Korea University.

Institutional barriers to the development of small businesses include the banking system. Despite recent reforms, banks still lack the credit analysis skills to evaluate small businesses and demand substantial collateral for loans. That makes it difficult for entrepreneurs to raise capital.

But analysts are hoping the planned takeover of Seoulbank and Korea First, two of Korea's biggest banks, by HSBC Holdings and a US financial consortium led by Newbridge Capital might change the situation.

The foreign bankers are expected to have a better ability to conduct risk assessment. "The foreign-owned banks will the lead the way in lending to small businesses and I expect Korean banks will eventually follow suit," said a western diplomat.

If the banks do change their ways, the Blue House might one day host a Korean Bill Gates rather than just the world's biggest maker of nail clippers.

THE BRITISH ECONOMY

Budget projections move nation closer to euro criteria

By Wolfgang Münchau, Economics Correspondent

The economic projections in yesterday's Budget, announced in the House of Commons, have moved the UK a step closer to meeting the government's own qualifying "tests" for membership of the euro.

The Budget's central projections for economic growth suggest the economic cycles in the UK and the euro-zone are more closely aligned than previously, as both economies are projected to go through a period of slow economic growth in 1999 followed by a pick-up in growth next year.

The government previously cited the misalignment in the economic cycles as one of the main obstacles for UK membership of the euro. The Budget's forecast of 1999 growth of between 1 and 1.5 per cent pitches the UK at a level only slightly below recent projections for Germany. The forecast of economic growth of between 2.25-2.75 per cent in 2000 puts the UK on the same plateau as the rest of the euro-zone.

With the 1999 Budget, the UK also fulfils all but one of the Maastricht criteria for membership of the single currency, which stipulates maximum levels of deficits, public debt, inflation and long-term interest rates, and which sets out conditions for exchange-rate stability.

Mr Brown said yesterday: "In line with our golden rule, even under our most cautious assumptions, we are balancing the current budget over the economic cycle. And for the first time in a generation we are eliminating the current structural deficit."

The UK, however, still faces one big qualifying hurdle due to the government's refusal to enter the new exchange-rate mechanism linking the euro to the other European Union currencies. Mr Brown argues that ERM2 membership is not formally required by the Maastricht Treaty. The European Commission and other countries apply a different legal interpretation of the treaty, insisting the UK must enter the ERM2 for two years before joining the euro.

While the UK's macroeconomic performance is likely to facilitate future membership of EMU, some of yesterday's tax changes may accentuate the differences in tax systems and structures between the UK and some other European countries.

Mr Brown yesterday hailed a new lower corporation tax rate of 30 per cent as "the lowest rate of any major country in Europe and the lowest rate of any major industrialised country anywhere."

Strategy launched to foster IT-literate society

By Deborah Hargreaves

Gordon Brown yesterday heralded an information technology strategy to make Britain a computer-literate, technology-friendly society.

The chancellor said the government would spend £1.7bn ($2.7bn) to encourage wider use of computers. This aims to allocate £670m to fund a network of up to 1,000 computer learning centres in schools, libraries, colleges and internet cafes.

These centres open for up to 14 hours a day and at weekends to encourage both children and adults to explore the uses of IT: "A whole new network of computer learning with one purpose only, that the whole of Britain is equipped for the information age," he said.

The government will subsidise computer rental for low-income families and allow workers to use computers loaned by employers without being taxed on them as a benefit-in-kind.

"Anyone left out of the new knowledge revolution will be left behind in the new knowledge economy," Mr Brown said. "So we will pioneer a system under which local partnerships will be able to loan computers and software in the new century the way local libraries have loaned books in the last century."

The strategy will see 32,000 schools connected to the internet and 370,000 teachers trained to use computers. Teachers will have access to funds of £20m to buy 100,000 computers for home use.

This year's finance bill will also allow for electronic filing of tax returns. The government is modifying its IT systems to enable internet filing of VAT and self-assessment returns by April 2001 and employers' tax returns by April 2002.

Individual Learning Accounts will be expanded to provide tax-free assistance for learning computer skills. Both employers and employees will be able to make tax-free contributions to these accounts.

● Tax credits for research and development will be introduced for the first time in the UK next year, as part of the government's drive to stimulate scientific innovation, **Clive Cookson and David Pilling write.**

The £150m R&D Tax Credit for small and medium-sized enterprises will cut the after-tax cost of research by 12½ per cent for profitable companies. It will reduce the immediate cash cost of R&D by 24 per cent for loss-making companies.

Loss-making companies will receive this benefit instead of the present arrangement, in which they carry forward accumulated losses – often over several years – to write off against any future profits.

In addition, the government will extend first-year capital allowances that allow small and medium-sized companies to write off 40 per cent of capital investment, at a cost of £335m in the coming year.

The BioIndustry Association said it had long campaigned for an R&D tax credit. The initiative was "excellent news".

CHANCELLOR'S SPEECH LOWEST LEVELS OF TAX IN GENERATION

'Enterprise and fairness' emphasised

By Deborah Hargreaves in London

"A Budget for Britain to succeed in the new economy and lead in the new century," is how Gordon Brown, chancellor of the exchequer, opened yesterday's announcement of monetary and fiscal measures for the coming year.

"This is a Budget built on the central idea that our future depends on enterprise and fairness together," he said. In line with its bid to encourage enterprise and innovation along with family life, the government has slashed business and personal taxes to the lowest levels in a generation.

The Budget heralded a shake-up in competition policy, new measures to encourage small businesses and tax breaks for entrepreneurs. "Britain must make a quantum leap in skills, innovation, competition, information technology and small business," said Mr Brown. "It is wholly unacceptable that consumer goods can still cost up to twice as much in Britain as in America."

The chancellor announced seven major reforms for business. He reduced the level of corporation tax to 30 per cent from April, calling it the lowest rate in British history and in any major industrialised country. The small companies tax was cut to 20p benefiting 350,000 companies.

For the very smallest businesses with profits of up to £10,000 ($16,000) a year, there will be a new starting tax rate of 10p in the pound from April 2000. The legislation is aimed at ensuring those who take risks are rewarded: 85 per cent of the firms gaining from the new rate have fewer than 10 employees – "the very firms we most want to see grow, the very firms whose growth will create the greatest number of new jobs".

In recognition of the difficulties faced by manufacturers from a strong pound and global instability, Mr Brown announced £325m to allow small to medium-sized businesses write off 40 per cent of all they invest in the coming year.

Tax cuts for key personnel in high-risk businesses were also introduced along with proposals for an all-employee share ownership scheme. Tax credits for small companies investing in research and development would allow them to underwrite up to a third of their costs.

The chancellor also announced measures to upgrade Britain's science and high-tech industries with an additional £100m for the £600m joint infrastructure fund to renew the science capital base and £20m start-up funding for hi-tech venture capital funds. This would be accompanied by a national IT strategy with computers available to all communities across Britain.

Environmental measures aimed at reducing carbon emissions by 12.5 per cent by 2010 included proposals for an energy levy on business from April 2001 which would cut emissions by 1.5m tonnes of carbon a year. But this controversial measure would only be introduced after widespread consultation with industry. It would also be accompanied by £50m to encourage businesses to invest in new environmental technologies.

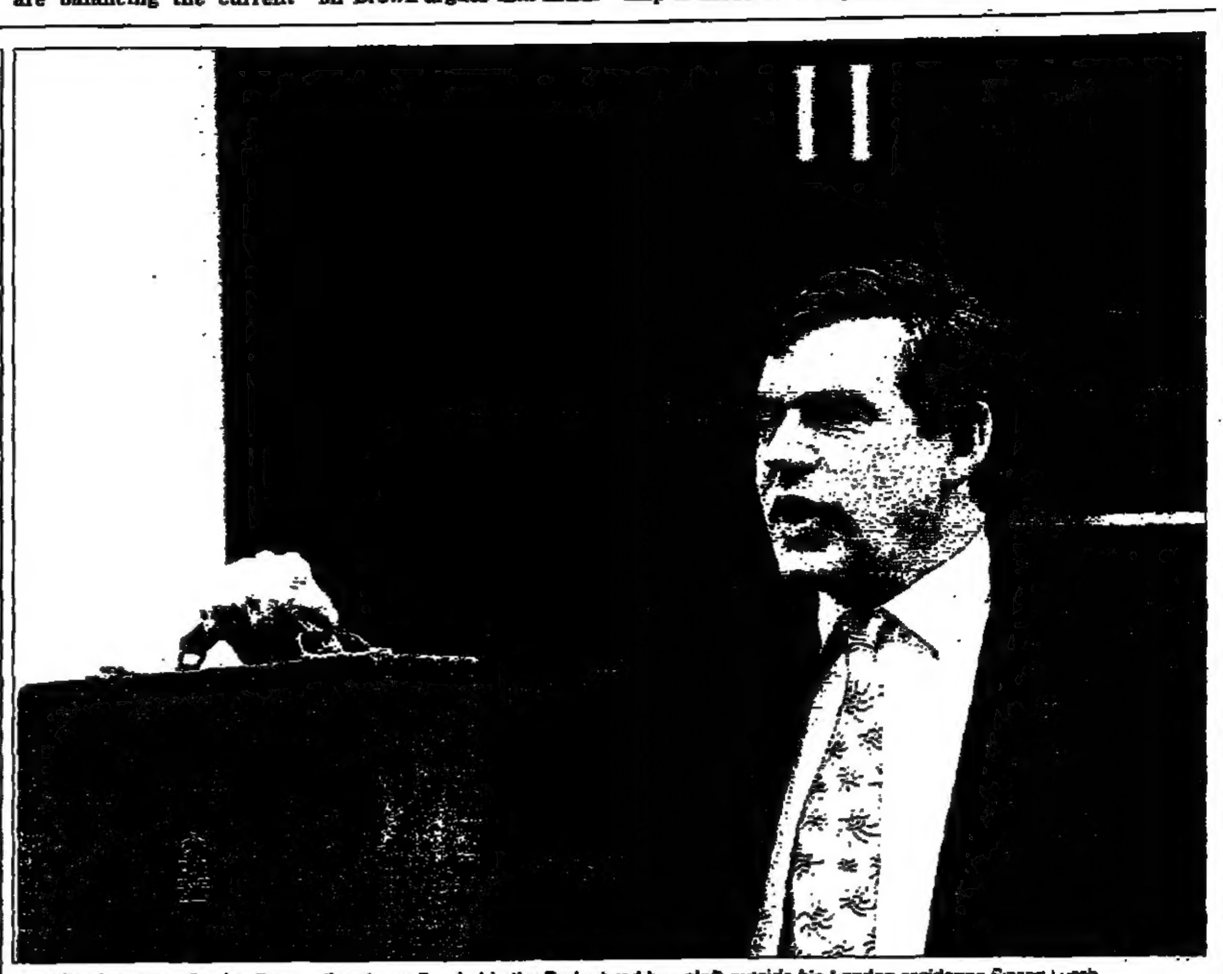
In an effort to help the lower-paid, the chancellor introduced a new 10p rate of income tax for the first £1,500 of earnings from April and a 1p cut in the basic rate of income tax to 22p from April 2000.

In a bid to assist families, he announced a tax credit for parents to replace the married couples' allowance.

Optimism on growth rates

Britain's growth rate will be between one per cent and 1.5 per cent this year, Gordon Brown, the chancellor, said yesterday, **Deborah Hargreaves writes.**

Sharp cuts in interest rates by the Bank of England, the UK central bank, have led to government expectations of a robust bounceback for the economy next year. The growth rate will rise to 2.25 per cent to 2.75 per cent in 2000 and 2.75 per cent to 3.25 per cent in 2001, Mr Brown said. British interest rates of 5.5 per cent are now at their lowest long-term rate for 40 years with inflation measured at 2.5 per cent.



Traditional gesture: Gordon Brown, the chancellor, holds the Budget red box aloft outside his London residence Sinasi Lynch

Company share schemes boosted

By Jean Eaglesham in London

Employees will for the first time be able to buy shares in their company using their pre-tax salary under a new share scheme designed to build a "democracy for enterprise", the chancellor announced.

However, experts said the tax breaks were not as generous as Gordon Brown had implied.

They also said the plan was unlikely to achieve the government's stated goal of doubling the number of companies that offer share schemes to all employees.

The scheme, which comes into effect next year, allows employees to defer tax but not to avoid it altogether.

"The chancellor did imply it was more tax-advantaged than it is; it's a benefit, but it's not completely tax-free," said Sarah Hyde, a partner at accountants Ernst & Young.

Employees can buy shares from untaxed income but they have to pay income tax on the purchase price when the shares are sold. Shares sold within three years will also be subject to capital gains tax.

The scheme is a hybrid of the two existing all-employee schemes – profit sharing, in which employers distribute part of their profits by way of free shares, and save-as-you-earn (SAYE), in which employees have to save for shares but can buy them at a significant discount to the market price.

The new scheme will give employers the discretion to give their workforce an effective discount, by matching any shares bought with up to two free shares.

Experts applauded the extra room for manoeuvre that this would give companies.

The government has linked the relatively low number of employee ownership schemes in the UK with the country's poor productivity. About 7 per cent of the UK workforce participates in such schemes at the moment in contrast to 10 per cent in the US and 23 per cent in France.

A mass of figures adds up to a modest redistribution of wealth

Philip Stephens picks through a plethora of Budget measures to find a vote-winning theme of help for the poor and hard-working

To blink was to miss the economics in Gordon Brown's speech. The pace of growth had slowed but would pick up. Inflation was low and would remain so. Public finances were in good shape. The last Budget before the millennium, the chancellor of the exchequer asserted, would leave behind a century of sterile ideological conflicts between right and left. Then it was on to the serious politics.

Mr Brown told us that while the Bank of England sets interest rates and fiscal policy is on automatic pilot, the Treasury has become the engine room of social policy. It promises a fairer society – and a dynamic economy. The chancellor sees his task as building a bridge between the two.

As usual it was a confident performance. No one quite commands the House of Commons like Mr Brown. If there was a criticism of the style, it was that his message was often lost in a blizzard of technical detail and populist wheezes. As corporation tax cuts made way for research and development tax credits, enterprise management incentives and tax-free Individual Learning Accounts, you could hear the accountants cheering.

The numbers – £4bn here, £6bn there – deliberately inflated the immediate changes. Mr Brown could never resist rolling up several years' tax cuts and public spending commitments into one big package. For the record, the net "giveaway" in the next financial year is a fraction over £1bn.

These are small points. The assault on the middle classes that many had feared and a few had hoped for did not materialise. It was never planned. Tony Blair's government has elections to win. A 10p income tax rate makes a good campaign pitch. So does a new tax credit for children. And a £100 winter heating allowance for pensioners rich and poor could be worth a lot of votes in elections to the Scottish parliament.

The calculation is that the middle classes can live with the (deferred) abolition of mortgage tax relief and the married couples' allowance. There will be cries of outrage from the moral minority – but Mr Brown is probably right.

This, though, is a redistributive Budget – just as were the two that preceded it. Trawl through the dozens of changes in the Budget Red Book. Add up the rows of pluses and minuses. And two things are clear. The first is that Mr Brown has paid for cuts in high-profile direct taxes with increases in more obscure, mostly indirect taxes. The second is that, by and large, the changes shift a modest amount of money from the higher-paid to those at the bottom of scale. Thus the new family tax credit will be paid for through increased National Insurance contributions for those near the top of the income scale. Company car drivers will pay to keep the pensioners warm.

Some of this represents direct no-strings-attached transfers to the poorest – particularly pensioners and families with children. But the main beneficiaries – as the chancellor so often reminded us – are those able and willing to work.

Which takes us to Mr Brown's main political purpose: to square the circle of orthodox economics and social justice. Work, in the chancellor's mind, is the only way the government can lever up the life chances of the least privileged.

The conditions attached to the New Deal welfare-to-work programme – toughened again for the young in this Budget – provide the stick: a plethora of tax incentives and credits provide the carrot. And there lies the importance of the 10p starting rate of income tax. Purists will argue that a higher threshold would have been fairer. But that misses the point. What counts for Mr Brown is the demonstration effect – work pays.

The Scottish Presbyterian in him is set on changing the culture of our society. The poor – or rather those among them fit for employment – are to given opportunity. And with it a decent income. But they must be willing to work for it.

The question is whether the middle classes, whose views are so earnestly tracked in 10 Downing Street, will buy the package. The answer is a conditional yes.

Mr Brown has credit in the bank. The government's most precious, and for many, unlikely asset is the perception that it is competent to run the economy. Sure, the chancellor may be chipping away at some of the tax privileges of the better-off, but he has kept his word on inflation and spending. He is a credible guardian of the nation's finances.

And there is no hint of class envy in the redistribution. With tax cuts for small companies and new incentives for entrepreneurs, the chancellor presents himself as a friend of the hard-working rich as well as the deserving poor. That's clever politics as well as sensible economics.

All this is conditional. The present equanimity among the voters of Middle England is built on their own prosperity. Higher taxes slip by unnoticed when incomes are rising, jobs are safe and interest rates are falling.

Mr Brown's economic forecasts are built on optimism. Manufacturing is already in recession. The rest of the economy is perilously close to it. The national mood will change if he is wrong.

Budget-by-Budget, this chancellor is edging in the direction of a new society. But social engineering is a perilous business. Voters are fickle, and one day the Conservatives will present a credible opposition.

The Budget on FT.com

The Budget measures are covered on the FT web site at FT.com/budget. It is carrying the chancellor's speech to the House of Commons in full as well as detailed analysis of his actions and policies by FT commentators

BRITAIN

Enhanced role sought for European nations in Nato

By Alexander Nicoll, Defence Correspondent

Changes to Nato command structures to give Europe much greater ability to launch military missions without US participation are to be proposed by the UK government today.

In a speech at the Royal United Services Institute in London, George Robertson, chief UK defence minister, will expand on the European defence initiative launched last year by Tony Blair, the prime minister. He will urge allies to agree on new steps at the alliance's 50th anniversary summit in Washington next month.

Under the proposals, new European Union capabilities should be built within Nato, without setting up a separate EU body or duplicating Nato assets. Decisions to deploy forces would continue to be taken by individual governments, not any EU or supranational body.

For Europe to tackle situations that do not demand a full Nato response, "we should build on the provisions that allow Europe access to Nato's military assets and capabilities for European-led operations," Mr Robertson wrote in a summary of his proposals.

He will suggest that the post of deputy supreme allied commander Europe should be upgraded to ultimate commander of Europe-only forces. The post, until now held by a UK officer, would be rotated.

Europe would need to ensure reliable access to Nato resources. "We could identify a range of European command options and force packages for European-led operations, and take steps to ensure they are regularly exercised," according to Mr Robertson.

The proposals are likely to be welcomed by other European nations, which have long desired a stronger European defence identity. The immediate problem will be France's absence from Nato's command structure because of a long-standing dispute with the US.

Mr Robertson will argue other European countries need reform their armed services in a similar way to the UK, stressing rapid deployability of troops to deal with crises, and downplaying the need for national defence.

Javier Solana, the Nato secretary-general, yesterday said the alliance was ready for a stronger European role. Building it within Nato would ensure that Nato members outside the EU – Iceland, Norway and Turkey – would not be excluded.

Entry to euro urged in Rover rescue plan

By Haig Simonian in Geneva

Werner Sämann, new chairman of Rover, yesterday urged the UK government to join the euro "as soon as possible", as he set out six priorities to restore the UK subsidiary of BMW to profitability.

"We would like to export products, not jobs," he said. "With a high pound, the danger is that we export jobs."

The amount of UK government aid to be made to the German carmaker is one factor likely to affect its decision on investing in building new models at Rover's Longbridge plant in Birmingham, central England.

Mr Sämann focused his fire on performance in the UK, Rover's prime market, where sales and market share have crumbled. To boost performance, he announced a push on new products, marketing, quality and public relations.

BMW is expected to announce in its 1998 results later this month that Rover lost at least DM1.5bn ($0.83bn), based on its conservative accounting standards. As a first step to improve penetration of the crucial small family car market, Rover will later this year launch revised versions of its slow-selling 200 and 400 models. Mr Sämann said the revised cars, codenamed "Jewel" and "Oyster", would be much more than facelifts.

Mr Sämann, an engineer previously in charge of BMW's engine and gearbox operations, said Rover had BMW's backing to remain a full-range carmaker.

However, a decision on whether the new models will be built at Longbridge is not expected until BMW's supervisory board meets later this month. "As chairman of Longbridge, I'm fighting for Longbridge," he said.

Analysts have said Rover would need to build at least 500,000 units a year to justify the heavy investment in a new "platform" – or basic engineering structure – for the cars.

Geneva Motor Show, Page 16

Formula for arms handover goes to Sinn Féin

y John Murray Brown in Belfast

The Ulster Unionist party yesterday met Sinn Féin to propose a way out of the weapons impasse that is blocking formation of a new power-sharing administration in Northern Ireland.

The pro-British party told the political wing of the Irish Republican Army that the executive could be established on a simple written assurance that IRA disarmament had started from Canada's Gen John de Chastelain, who chairs the international body overseeing the destruction of illegal arms.

The proposal was made by David Trimble, the Ulster Unionist leader and the province's first minister, to Gerry Adams, the Sinn Féin president, during a 75-minute meeting near Belfast, the regional capital.

Mr Trimble said "a limited amount of progress was made". The UUP has demanded a "verifiable start" to IRA disarmament before Sinn Féin enter the 10-member executive, which is due to take over running the province when powers are transferred from the UK parliament in London.

However, the IRA – which advocates a united Ireland – has given no indication of being prepared to change its position that there will be no arms decommissioning.

The latest plan envisages a 3-hour gap to await a fax from Gen. de Chastelain on March 29 – the new deadline set by the UK government for the transfer of powers and the day executive members are due to be nominated. This would provide a face-saving formula for both sides.

It is unclear whether Mr Trimble realistically believes Sinn Féin will take up his offer. But by detailing a compromise formula, officials say Mr Trimble is keen to emphasise the "inevitability of decommissioning."

Caution in City over Budget handouts

By Philip Coggan and Arkady Ostrovsky in London

Reaction to the Budget in the City of London was guarded after the chancellor proved to be more generous with tax handouts and spending increases than most forecasters had expected.

Economists had been looking for a "neutral" budget with no net handout to taxpayers on the grounds that Gordon Brown would be constrained by the possible effect on public finances of an economic slowdown.

Bob Semple, the BT Alex Brown strategist, said: "There is a fair bit of demand management involved. My guess is that the equity market reaction will be positive but gilts will be more suspicious. It looks like there will be a fiscal stimulus of £3.5bn ($5.63bn) in 2001, a likely election year."

Some saw the Budget as altering the outlook for interest rates with the Bank of England, the UK central bank, likely to react cautiously to the boost to theeconomy.

Richard Jeffrey, Charterhouse group economist, said: "I suspect this is going to give the economy too much of a stimulus. Consequently, we will get too strong growth later in the year to which the monetary policy committee will be forced to respond by raising rates."

The benchmark 10-year gilt fell by around half a point, pushing up the yield by about 5 basis points. Kevin Adams, gilts analyst at Barclays Capital, said the gilt market could face further weakness, especially at the short end of the market.

Short sterling, the market's vehicle for speculating on interest rate changes, fell on the back of the Budget, indicating that traders thought the chance of further rate cuts had been reduced. However, the contract still indicates the possibility that base rates will fall from the current 5.5 per cent to 5 per cent by September.

The equity market reacted rather better, with certain stocks and sectors benefiting from the expected boost to consumer spending. The FTSE 100 index, which was about 9 points ahead before Mr Brown began his speech, ended 28.9 points higher at 6,237.7.

Lex, Page 14; Currencies, Page 21; London Stocks, Page 28

Tax up by stealth, says opposition

William Hague, leader of the opposition Conservative party, accused Mr Brown of being the "pickpocket chancellor," increasing taxes by stealth despite the chancellor's presentation, writes **Deborah Hargreaves**.

Paddy Ashdown, leader of Britain's third party, the Liberal Democrats, said the chancellor had adopted a "scattergun approach," although he welcomed many of the measures.

The party branded the new 10 pence rate of income tax as an expensive gimmick. Malcolm Bruce, its Treasury spokesman, said: "This Budget means well, but Gordon Brown has put gimmickry and complexity before fairness and simplicity."

Cut in corporation tax wins welcome

Measures send clear signals that feared reforms of tax and avoidance rules are to be dropped, writes **Jim Kelly**

There was good news for small and big business in the Budget with a new 10p corporation tax starting rate for 270,000 growing companies and clear signals that much feared reforms of capital gains tax and avoidance rules are to be ditched.

As expected the chancellor trumpeted already announced cuts in corporation tax to 30p – and 20p for small companies – but in a surprise move introduced a 10p rate for companies with taxable profits up to £10,000, tapered up to £50,000.

The chancellor took the opportunity not only to draw favourable comparisons with the UK's main economic competitors but also to hint that more good news might be on the way for industry: "For the life of this parliament the rates will be 30, 20, and 10 or lower."

But there was much better news for large companies buried in the government's background statements to the chancellor's speech. Wholesale reform of capital gains tax for companies has been dropped following an angry reaction from industry which feared complicated changes mirroring those for personal capital gains.

And the Treasury also gave the clearest hint yet that it may drop plans to introduce a General Anti Avoidance Rule (GAAR) which would give the tax authorities power to stop transactions constructed to limit tax bills.

The chancellor said it remained an "option" to bring in a GAAR "if more targeted legislation proved ineffective" – "but the government would not be proceeding with a GAAR in this Budget or with a mini-GAAR for VAT on construction services".

"Big business will be extremely relieved – this is wonderful news," said Ian Barlow of KPMG. "CGT reform would not have worked and the GAAR could have undermined many ordinary commercial transactions."

"We are delighted with the announcement on the GAAR – it looks like a signal that they will quietly drop it in the longer term," said Douglas Fairburn, head of tax at Ernst & Young.

On personal capital gains tax, the chancellor said his earlier reforms were designed to reward long term commitment with a 10p rate. He announced that by April 1 the first £7,100 would be free of CGT. "This measure will exempt 10,000 more people from CGT altogether," he said in a fillip for small businesses.

In another measure which will particularly help owners of family businesses, the chancellor raised the threshold at which inheritance tax at 40 per cent bites to £231,000 from £223,000 although stricter measures for hitting avoiders will be brought in and loopholes closed.

As usual, the Budget contained a raft of specific measures designed to tackle corporate tax avoidance. "The budget included a ragbag of specific avoidance measures. At first sight the VAT grouping changes look less draconian than feared," said Paul George, tax partner at PwC.

Other measures include:

- Existing rules will be extended to stop artificial techniques designed to strip value our of subsidiaries prior to their sale to avoid tax.

Loopholes in the rules for North Sea corporation tax and petroleum revenue tax which could be exploited by the sale and leaseback of assets will be closed.

- New tighter rules will be bought in to prevent companies avoiding tax by channelling UK dividends via controlled foreign companies (CFCs).
- Legislation will be introduced to tax sums paid by landlords to induce tenants to take out a lease - so-called "reverse premiums". While the use of these was widespread when property values collapsed in the 1980s they are far less frequently used now.
- A whole range of anti-avoidance measures to protect VAT will be introduced including measures targeted on construction services. Wholesale reform of the laws covering VAT Groups – which allow related companies to rationalise their payments – appears to have been sidelined after widespread opposition, but limited reforms are proposed.
- The government confirmed it is to close a loophole which allowed UK companies to avoid paying Stamp Duty Reserve Tax in mergers or acquisitions involving foreign currency bearer instruments. Other aspects of the SDRT regime are to be tightened up.

onal £250m in a full year.

IPT applies to motor, property, travel, and extended warranty policies. But it is not applied to life cover

Tax relief plan for intangible assets

By Alan Cane and Kevin Brown

The government plans tax relief on the costs of buying licences to offer the next generation of mobile phone services in a move with significant implications for capital investment in intellectual property.

Under current legislation, the cost of a mobile phone licence would not qualify for capital allowances because it is defined as an intangible asset. Now the chancellor is proposing to offer tax relief over the 20-year life of the licences. Legislation will be introduced in 2000.

The government is planning to auction four or five licences for the next generation of mobile phones early next year with the aim of raising a minimum of £1.5bn ($2.4bn) for the state.

Pam Jackson, international tax partner at PWC, said the UK was lagging behind other countries in the treatment of intangible assets. Ms Jackson said US companies, for example, could acquire such property in the UK and then write it off against profits in the US.

NEWS DIGEST

ENVIRONMENTAL REFORMS

Energy tax expected to raise minimum of $2.8bn

An energy tax on business, as part of "the largest and most radical package of environmental tax reforms ever announced in this country", was announced yesterday among the Budget measures by Gordon Brown, chancellor of the exchequer. The tax is expected to raise at least £1.75bn ($2.8bn) in its first full year. Mr Brown promised "significantly lower rates of tax for energy-intensive sectors that improve their energy efficiency. Energy-intensive sectors are being asked to come forward with proposals, which may include trading in carbon "permits".

Mr Brown said that the government was implementing the recommendations made by Lord Marshall, the chairman of British Airways, who led a government taskforce on the business use of energy last year. The chancellor said the energy tax would cut carbon pollution by 1.5m tonnes, as part of a programme of measures announced in the Budget that would together cut carbon pollution by 3m tonnes. **Vanessa Houlder, London**

TOBACCO DUTY

Increase disappoints industry

The immediate 17.5p increase on the price of 20 cigarettes means that a pack of 20 sold in the UK will cost £3.82 ($6.15) compared with £1.98 for a similar pack in France, the UK Tobacco Manufacturers' Association said yesterday. Mr Brown said the government would continue increasing tobacco excise by 5 per cent above inflation.

While tobacco smuggling may be costing £1.5bn in lost excise each year, this could not undo a policy on cigarettes for "good and urgent health reasons", the chancellor said. But cigarette manufacturers who had hoped for a duty cut said the government had failed to recognise that high tobacco taxes were actually causing smuggling.

- The Scotch Whisky Association was disappointed that tax had not been cut to help reverse the slide in UK whisky sales, saying there had been a drop in the UK market of around 7 per cent mainly "because shoppers are going overseas to France to buy cheaper whisky".

MOTORING AND FUEL

Tax cut on smaller cars

Unleaded petrol will rise by 3.79p a litre, taking average prices up to around the 67p a litre mark – about £3.04p ($4.89) a gallon. Leaded petrol goes up 4.25p a litre to around 74.4p a litre; diesel rises 6.14p a litre to nearly 71p a litre. The annual car tax disc will be reduced by £55 from the current £150 for smaller cars from June 1. The rate for other cars will rise by the level of inflation. Mr Brown said the duty would be frozen for 98 per cent of all trucks, and the licence fee cut by up to £1,000 for trucks and buses with clean engines. He also announced a reform of company car tax to encourage the use of fuel-efficient cars. This reform, he said, would cost the typical user about £1 a week. To cut pollution, employees will be able to get tax-free benefits from employer-run or employer-subsidised buses, car-sharing schemes and other environmentally-friendly means of getting to work.

FILM INDUSTRY

Extended tax break welcomed

The news that Mr Brown intends to extend the tax allowance available for new films made in the UK for another two years until July 2002 was welcomed by the film industry. Mr Brown originally unveiled proposals for film makers to write off against tax the production or acquisition costs of UK-made pictures with budgets of up to £15m in his first Budget in 1997. After a delay while the government completed paperwork, the tax breaks have proved extremely popular with film makers at a time when the UK production sector has been bedevilled by economic obstacles, notably the strong pound. **Alice Rawsthorn, London**

INVESTMENT TRUSTS

Buy-back rules set to ease

The government yesterday moved towards relaxing restrictions on investment companies buying back their shares, with the publication of a consultative paper. Investment trust companies will be able to use capital profits to buy back their shares without having to renounce their trust status under changes proposed. Under a law of 1985, investment companies may only use "revenue profits" such as dividends and other investment income to repurchase their own shares, rather than use capital profits from increases in the value of their investments. Ian McCartney, an industry minister, said the existing system was "unnecessarily restrictive". **Jane Martinson, London**

BOOK REVIEW GENETICALLY MODIFIED FOODS

Worm at the heart of the blossom

Two US scientists have joined the attack on the speed and scale of agriculture's genetic revolution, says **Vanessa Houlder**

AGAINST THE GRAIN
The genetic transformation of global agriculture

Marc Lappé and Britt Bailey
Common Courage Press
$14.95

Opposition to genetically modified food has been relatively muted in the US. But last week two Californian researchers published a vigorous attack on the speed and scale of the revolution.

Their book's message is that the genetic revolution in agriculture has not been accompanied by sufficient consideration of long-term concerns. The authors, who work for the Centre for Ethics and Toxins in northern California, argue that GM crops are being introduced on too large a scale, too quickly and with too little oversight.

One problem, says Marc Lappé, a pathologist who co-wrote the book with Britt Bailey, an environmental scientist, is the growing power of a few agrochemical companies, perpetuating the trend towards monoculture, in which a single variety of a crop is grown on a vast scale.

This could have severe consequences for genetic diversity, increasing the risk of epidemics which – as the 19th century Irish potato blight showed – are more likely to occur among genetically uniform food crops. The need to maintain genetic diversity makes a case for setting aside a percentage of global crop acreage to house non-engineered seeds, Mr Lappé says.

The authors are also anxious about the "short-sighted" overuse of particular GM crops. They say it "is reminiscent of the early days of the antibiotic revolution", when antibiotics were put to relatively trivial uses that resulted in the emergence of antibiotic-resistant strains.

Their concerns are focused on crops engineered to produce a toxin called Bt (*Bacillus thuringiensis*), which controls insects while greatly reducing the need to use pesticides. They fear that overuse will make insects tolerant of the toxin, which is widely used by organic farmers. "Over time, perhaps just one or two growing seasons, what has been an ecological miracle may become an ecological disaster," they argue.

The book also argues that the GM revolution will lead to far greater reliance on a small number of herbicides. In one case, it argues, regulators have overlooked the potential residual toxicity of an important breakdown product that could enter the human food chain.

The authors have other worries about the health risks of GM foods. Boosting the activity of a gene that makes critical amino acids may, in addition to conferring resistance to a herbicide, change the plant's metabolism, creating by-products called isoflavonoids. These have similarities with human hormones called phytoestrogen, which may have implications for soy-based dairy foods – and particularly baby milk formula.

Mr Lappé says his work suggests that, if anything, levels of phytoestrogens are lower in genetically engineered varieties than in conventional varieties. "It can cut both ways," he says. But it underlines the case for assuming that there may be differences between GM crops and their non-engineered counterparts.

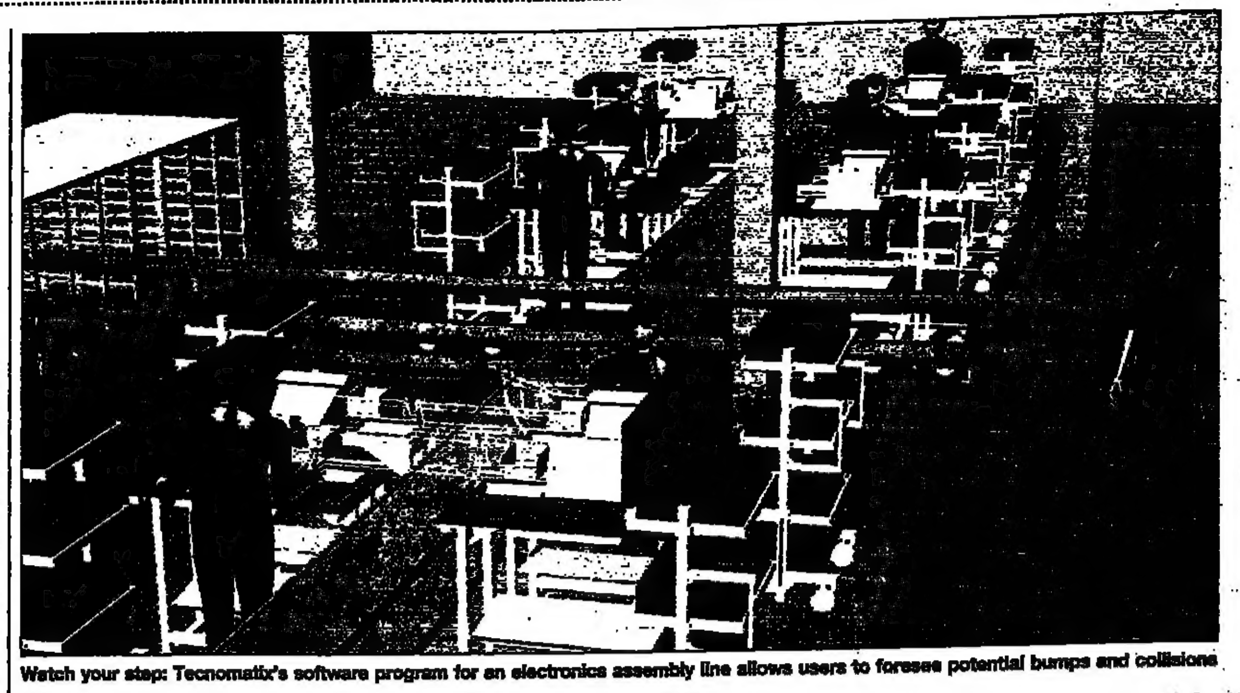
He argues for a "wholesale review of the regulation, testing and inspection of all engineered crops". The failure to label GM foods is the "ultimate foolhardiness" because it makes it impossible to track transgenic crops in the food chain for possible adverse effects.

The perception that the US regulation system is tough is wrong, he says. The interaction of the Department of Agriculture, the Food and Drug Administration and the Environmental Protection Agency creates a regulatory "patchwork quilt" in which each agency can duck responsibility.

In this litany of concerns about regulation, there might be a risk of understating the potential benefits of genetic engineering. Perhaps the most powerful argument of the technology's proponents is that it offers a promising approach to feeding a growing world population while reducing damage to the environment.

Mr Lappé agrees there is a need for a generation of more productive crops, but says agrochemical companies have so far developed fewer of these crops than their rhetoric suggests. The problem, he says, is that short-range economic considerations have driven the selection of genetic products, rather than choices based on long-term objectives or public benefits.

Mr Lappé admits to some philosophical qualms about GM crops. But he insists that he is arguing for more public accountability and control, rather than outright rejection. "This isn't a book of blanket opposition to the technology. There might be real advantages. But there are legitimate questions to be asked."



Watch your step: Tecnomatix's software program for an electronics assembly line allows users to foresee potential bumps and collisions

INFORMATION TECHNOLOGY MANUFACTURING SOFTWARE

Virtually perfect

Electronics manufacturers are borrowing from motor industry experience to get production right first time, writes **Avi Machlis**

It is often difficult for manufacturers in the electronics industry, where new products are released every few months, to think about changes to production and design processes.

But in recent months 10 large electronics companies, including Toshiba of Japan, Bosch of Germany and Nokia of Finland, have started experimenting with virtual manufacturing software that has already made a big impact on the automotive industry. These technologies allow companies to build realistic three-dimensional simulations of factories, eliminate potential production errors and save precious time in the hectic race to market.

"The manufacturing industry, and electronics [in particular], are looking for ways to accelerate time to market and optimise end-to-end process chains," says Bruce Jenkins, vice-president of Daratech, a Boston-based market research firm for the computer-aided design, manufacturing and engineering industry (Cad Cam/CAE). "They are beginning to wake up to the opportunity that exists in the manufacturing and production engineering area."

Cad technologies are already widely used in many industries. Automated production is also widespread. But in recent years, Deneb, a US subsidiary of Dassault Systèmes, Electronic Animation of Iowa and Tecnomatix of Israel have introduced Cape, or computer-aided production engineering. Dassault and EA are still focused mainly on the automotive and aerospace industries, while Tecnomatix is leading the way into the electronics industry.

Tecnomatix hopes for a boost in its drive to penetrate new markets from Parametric Technology (PTC), the Massachusetts-based company that is the biggest in the mechanical Cad Cam market. PTC announced yesterday at an industry conference in Chicago that it will integrate Tecnomatix tools into its Windchill suite of software for management of product and process life cycles.

Cape enables companies to streamline design of production processes, for example, by building three-dimensional computer simulations of assembly processes and production lines, complete with super-realistic images of rolling conveyor belts, robots and even human workers.

The Cape concept is to pinpoint problems on screen, such as colliding robots or parts that do not fit. In the past many of these mistakes were caught only after costly trial and error.

Many electronics companies have already invested heavily in Cad/Cam technologies. Some have even introduced Cape technology for planning printed circuit boards. Until now, though, the planning of manufacturing has usually been worked out by hand or using tools developed in-house.

Harel Beit-On, Tecnomatix chief executive, says: "We recognised the same pattern

The concept is to pinpoint problems such as colliding robots or parts that do not fit

that we saw 10 years earlier in the automotive industry – there was something missing in the middle [between product design and manufacturing]."

Electronics companies will find it hard to ignore the benefits reaped by many car manufacturers. For example, Nissan, the Japanese car-maker, is cutting its new product cycle from between 20 and 25 months to 12 months with the help of Dynamo, a Tecnomatix program for assembly processes.

Mr Jenkins says: "I have no reason to think that the benefits won't be equally big, potentially, for the electronics industry."

Initial reaction from electronics groups has been positive. Toshiba has cut the moulding process of laptop computer casings from 32 to 24 days using Valisys, a Tecnomatix tool for testing product tolerances.

Silicon Graphics, the US manufacturer of high-performance computers, is confident that Tecnomatix will help it improve time-to-market and yield. "The systems are very graphical and use simple concepts," says a Silicon Graphics engineer. "It's also intuitive and simulates the factory experience." Amid the enthusiasm, however, an engineer at one company noted: "It's expensive."

While most car manufacturers have large specialised engineering departments, electronics companies are often far less centralised. To cater for this difference, Tecnomatix has redesigned its tools to work on Windows NT operating systems instead of Unix, and a new product line, Tune, will be released in the next few weeks.

Amir Livne, Tecnomatix vice-president of marketing, says: "We wanted to meet the needs of those who don't want to spend two weeks learning a product."

PAUL TAYLOR
IN LONDON
VIEWPOINT@FT

Route towards a third way

A new model promises cheaper internet access as service providers are encouraged to abandon subscription charges

The cost of accessing the internet has typically comprised two elements for dial-up consumers: a monthly subscription charge payable to the internet service provider and the per-minute cost of a local telephone call payable to the telecoms provider.

Two main business models have emerged: the North American one in which most local calls are free but internet users pay a relatively high monthly subscription charge; and the traditional European model in which monthly subscription charges are relatively low but local call costs are high.

Now, however, a distinct third model has emerged in the UK, where Dixons' success with Freeserve, its subscription-free service, has spawned lookalikes and encouraged a number of existing ISPs to abandon their monthly subscription charges.

Freeserve has managed to attract 1.3m users (one in five UK internet users) since its launch in September, far outstripping the wildest estimates and making it a focus of interest.

On the face of it, Freeserve and its rivals represent an interesting alternative for consumers tired of paying a flat monthly subscription fee that ranges between £7.50 and £15 ($12 and $24) a month, together with per-minute connection costs.

But as Eckard Pfeiffer, Compaq's chairman, reminded us recently, there is no such thing as a free lunch. Freeserve and its rivals plan to recoup their costs through advertising and revenue-sharing with the telecoms provider that connects the local call, for which users continue to pay.

Dixons expects Freeserve to break even next month, six months earlier than planned. In the meantime, however, the success of the model has forced telecoms providers and ISPs to re-assess their options.

Just how readily the subscription-free model can be transferred outside the UK will depend on local market conditions and national regulator environments. There are already similar services in France and Germany, and NetZero has set up a subscription-free service in the US.

In the UK one of the more bizarre – and greedy – reactions came from British Telecommunications, which told Oftel, the UK telecoms regulator, that it should be allowed to keep a higher proportion of the local call charges paid by subscription-free internet users. Simultaneously, BT removed the 1p-a-minute charge it was making for its own internet access service, Click.

Some leading independent ISPs in the UK believe they will be able to continue to charge monthly subscriptions for advertising-free, high-quality internet access and will boost their revenues by offering other services. But others are already preparing to jump ship.

INFORMATION TECHNOLOGY
● The FT's review of Information Technology appears on the first Wednesday of each month

As noted by Philip Lakelin, one of the authors of a report from Cambridge-based Analysis on competitive strategies for independent ISPs, independent ISPs face a rough ride over the next few years as competition intensifies in the rapidly expanding worldwide market for internet services.

Independent ISPs occupy a precarious position in the internet supply chain, acting as intermediaries between the owners of the transmission networks over which internet traffic flows and the owners of content on the web. Maintaining this position requires them to compete in both the infrastructure business and the service-supply business.

Mr Lakelin says: "Over the next five years independent ISPs will find themselves increasingly required to juggle the requirements of these two different business models."

Aside from the threat posed by subscription-free services, independent ISPs face growing competition from the established telecoms operators, while on the services side companies such as America Online and Yahoo! are redefining themselves as portals and shifting their main source of revenues away from basic access towards content-related services.

This suggests that with access margins continuing to be squeezed, dial-up access providers that fail to achieve at least 300,000 subscribers are unlikely to survive in the long term and that a much larger subscriber base will be required for ISPs relying heavily on advertising.

In the meantime, the regulator agencies, should help foster competition by ensuring that telecoms services are "unbundled" and that dominant telecoms providers are unable to use their market might to crush their much smaller rivals.

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At first sight, fixing the Year 2000 computer date problem is a no-win exercise. At best it leaves an organisation just where it started, able to continue its operations. But it need not necessarily be that way.

A study by PA Consulting confirms that anticipating the millennium bug has created significant disruption and taken resources away from creating value-added IT for organisations.

However, the study also suggests that some organisations have seized the opportunity to revitalise the deployment of IT within their business. "It is a golden opportunity to upgrade, upskill and gain competitive advantage from IT," the financial controller of a manufacturing company told the researchers.

Many companies have seized the opportunity to accelerate new investment in IT systems and infrastructure, replacing ageing networks and enhancing systems.

The respondents, all of whom worked for organisations with annual turnover of more than £150m, also noted that working relationships between business managers and the IT department improved, that resources are being managed better and that the importance of aligning IT to business requirements through an IT strategy has been reinforced.

paul.taylor@FT.com
This column appears fortnightly.

Virtuosic spoofs enliven New York music

In a less-than-snazzy locale **Martin Bernheimer** experiences the Eos Orchestra's 'Out There' Music, including its latest commissioned piece, 'Dracula'

Concerts, concerts everywhere. Stellar symphonic concerts. Costly concerts. Glamorous concerts. The venerable New York Philharmonic, under the safe, sane and often boring leadership of its incipient ex-Kapellmeister Kurt Masur, tends to Brahms and Beethoven at Lincoln Center. A long and glossy parade of visiting ensembles, representing cities from Atlanta to Zurich, annually wends its competitive way to Carnegie Hall. The guests play a lot of high-powered Tchaikovsky and Mahler and, like the resident orchestra, even venture a dutiful novelty once in while.

But, as is so often the case in musical New York, some of the most interesting events occur under modest auspices in less snazzy locales. Take, for example, the imaginative Eos Orchestra, a rather youthful not-so-little band that specialises in paying tribute to neglected masterpieces – and demi-masterpieces, too. Formed in 1995 by Jonathan Sheffer, an enterprising conductor who brings a composer's sensibilities with him to the podium, Eos plays most of its concerts in the churchly auditorium of the Society for Ethical Culture on Central Park West. An uplifting message is emblazoned on the wall behind the performing area: "The Place Where People Meet To Seek The Highest Is Holy Ground."

In the past, Sheffer and friends have deftly balanced lofty ideals against practical limitations, offering sophisticated performances within a casual milieu. The tone was pervasively serious when Eos examined the forgotten *oeuvre* of Paul Bowles and Alexei Haieff, the diverse compositions that have inspired the choreography of Merce Cunningham, and the changing faces of musical Americana as embodied by Gershwin, Copland and Bernstein. There was nothing solemn, however, about the eclectic programme splashed across the platform last Thursday night.

The event bore a title: *"Out There" Music*. Sheffer likes descriptive catch-alls. According to the impresario-boss, "out there" is an example of adjectival slang, referring to "something unprecedented, beyond accepted norms." The selected vehicles by Charles Ives, György Ligeti, David del Tredici and (are you ready?) Spike Jones didn't prove quite as innovative, as important or as stylistically independent, as one might have hoped. The concert did, however, turn out to be engaging. And, more important, perhaps, much of it was funny. In the dour world of orchestral experimentation, one must be grateful for small favours.

The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from darkest Transylvania

Ives' Three Pieces for Theater Orchestra invoked sonic landscapes from the turn of the century, terse tongue-in-cheeky demonstrations of what can happen when an iconoclast allows himself to march in several directions at once to the lusty clashes of disparate drummers. Ear-stretching remains a healthy exercise, even though Sheffer and his orchestra delivered the trash goods rather meekly.

Their penchant for delicacy proved more useful in "Mysteries of the Macabre," a conflation of several arias sung by Gepopo, Chief of the Secret Police, in Ligeti's fabulous opera of the absurd, *Le Grand Macabre* (1978). In an inspired flight of perverse anti-typecasting, the composer assigned the parodistic showpieces to a coloratura soprano. The stratospheric diva in drag chirps intricate bursts of filigree that could cause a Queen of the Night or Zerbinetta to tremble. The juxtaposition of otherworldly abandon and grotesque elegance creates a nice tension, a classic example, if you will, of the Ligeti-split personality in excelsis. Ilana Davidson surmounted every impossible vocal hurdle with charming ease.

The big premiere on the agenda took the sprawling, arch and rather inconsequential form of *Dracula*, commissioned by Eos from David del Tredici. An amiable spoof of yesterday's horror-film clichés it can hardly withstand comparison with the composer's limpid, bittersweet evocations of Lewis Carroll. Alfred Corn's vampirical text leaves no room for introspection, and, for better or worse (probably worse), Del Tredici allows his soon-to-be victimised protagonist to spend a lot of time speaking and only a little time singing. This ludicrous "Liebestod" is outfitted with background busy-music and embellished with quaint sound effects. Wendy Hill brought panache to the meanderings of the sacrificial heroine. The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from deepest, darkest Transylvania.

Sheffer closed the festivities with three virtuosic spoofs from the rude pen of Spike Jones, low-brow relics of the daffy 1940s intent on demeaning high-brow hits. There was a burping medley billed as "A Goose to the Ballet Russe," a buzzing-Bizet deconstruction called "Car Men," and "Shh! Harry's Odd," which translates, of course, as "Shéhérazade." Everyone went home chuckling – well, almost everyone.

NEW YORK THEATRE

Annie loses her ammunition

The casting of Bernadette Peters in the new revival of Irving Berlin's musical *Annie Get Your Gun* caused some consternation when it was announced last year. Surely a star known primarily for her creamy skin, hourglass figure and lyrically pure interpretations of Stephen Sondheim could not fit comfortably into the rough buckskins of the Wild West sharpshooter Annie Oakley.

The complainers, so aware of the mark that Ethel Merman put on the part at its premiere in 1946, seemed to forget that Annie Oakley as written need not be all brass and sass. Both Judy Garland, who was fired from the movie version, and Betty Hutton, who replaced her, oozed the kind of vulnerability that Peters is known for; and Barbara Stanwyck, who played the real-life markswoman in the 1935 film *Annie Oakley*, also suggested that the character could be more than a rifle-toting tomboy.

By trying to etch a psychologically wounded Annie, the show is robbed of its surefire charms

In the Marquis Theatre revival, however, the problem is not Peters's softness, so endearing in songs like "Moonshine Lullaby", but the pacing of her performance. She succumbs so quickly to the charms of Frank Butler, her rival and erstwhile colleague in Buffalo Bill's Wild West Show, that we are deprived of the satisfying conclusion that sparring of a more Beatrice-and-Benedict nature would provide. By trying to etch a psychologically wounded Annie, Peters robs the show of its surefire charms, which to ignite must concentrate on less analytical qualities.

Where Peters excels is in vocal technique and comedy. She hits her high notes as confidently as her character picks off pigeons. She mines laughs from moments that are not obviously exploitable: by sounding out the letters of Frank's name as she learns to read; by addressing the Sioux chief who has adopted her as "Papa Bull", by pausing ever so expertly after Frank insults her, then replying that he is a "swollen-headed cham-peen".

Even this sublime silliness, however, is problematic. Each time Peters does a slow burn she adds to the sluggish pacing that is the production's main detriment. And each time her director, Graciela Daniele, allows her to re-tailor a jaunty song like "I Got the Sun in the Morning" as a doleful ballad she only adds to the enervation.

In the second-act number "An Old Fashioned Wedding", we do glimpse how marvelous Berlin's material can be. The peacock-proud Frank, quite dashingly played by Tom Wopat, insists that his and Annie's nuptials stay simple. Annie craves ostentation. As he refuses to budge, she mocks his position, dancing around him and miming post-ceremonial rice-throwing. They engage in repartee with a quicksilver lightness one would like to transfer to their other songs.

As for their colleagues onstage, they at least look their parts. Ronn Carroll, double-cast as the innkeeper Foster Wilson and the impresario Pawnee Bill, resembles Louis B. Mayer and evinces that Hollywood mogul's brand of benign imperialism. Ron Holgate, as Buffalo Bill, is suitably imposing. And Gregory Zaragoza, as Sitting Bull, amusingly mocks the white man's every folly.

To address the concern that this musical presents Indians in a ridiculously outmoded fashion, the producers enlisted the old Broadway hand Peter Stone to rewrite Herbert and Dorothy Fields's book. He trimmed a racist song and the most offensive dialogue, and updated several references, including a hilarious section about many tribes' late-20th-century predilection for opening gambling casinos on their reservations.

But neither scattered comic pleasures nor the fluid delivery of some of the show's profuse array of standards can compensate for a misconceived central performance and direction so clueless that, in the evening's worst moment, disco-ish dry ice wafts onstage during the peerless lament, "Lost in His Arms". This white man say: Ugh.

Brendan Lemon

Bernadette Peters in Annie's buckskins: where she excels is in vocal technique and comedy

OPERA IN MONTE CARLO

Two bites at the cherry

The only part of *L'amico Fritz* most opera-lovers know is the Cherry Duet. Mascagni's most delectable music certainly asks for an encore, but the way it got one at this performance must be unique. The occasion was the Sunday matinee at the Opéra de Monte Carlo, the second of just three performances of a new production of this rarely staged opera.

It was about two-thirds of the way through that number that the unthinkable happened. Angela Gheorghiu lost her place and for a minute or so she and the orchestra persevered down different paths. Finally, conceding that 70 musicians and a conductor cannot be wrong, she stopped and proposed an action replay of the duet from the beginning – something I have never witnessed before in 30 years of opera-going.

Everybody hastened to put a good spin on it. The orchestra hurriedly flicked back through their pages. The prompter, possibly fearing retribution, redoubled his efforts and turned the rest of the duet into a trio. As the singing had been so beautiful, nobody seemed to mind. All the same, I would not recommend that she repeats the trick at La Scala, Milan. Italian audiences are known to gobble up faltering sopranos as an antipasto.

As the two principals account for almost everything in the opera that matters, it is a good idea to hire singers who will pull in a crowd. At Monte Carlo Gheorghiu and Roberto Alagna caused a rush for tickets that must have made the annual Grand Prix look positively sedentary. Over the past couple of years the husband-and-wife team has flown from one opera house to another on a jetstream of controversy. A succession of public stand-offs with producers and managements culminated in their now-famous joint sacking from the Metropolitan Opera in New York. "Les enfants terribles de l'opéra" screamed a cover story on a leading French music magazine on sale at the airport. Still, as the fresh young lovers of Mascagni's opera, they could not have been better cast.

The great virtue of *L'amico Fritz* is that it is not *Cavalleria rusticana*, the much more famous opera that preceded it. In place of *Cav's* gutsy drama and crude musical style, Mascagni was keen to show how cultivated a composer he could be and the conversational delicacy of much of this next score is skilful and elegant, especially in the Cherry Duet.

To put this little incident behind them, both went on to give 110 per cent. Alagna, returning to a theatre where he made some notable early appearances, sang with ardent tone to make a near-ideal Fritz. Gheorghiu's Suzel may have lacked Latin warmth, but she knows exactly how to colour a phrase and there are signs the voice is growing bigger and stronger. Mascagni barely gives the rest of the cast a look-in, but Anna Bonitatibus seized her brief opportunities as Beppe and Lorenzo Saccomani did what was needed as David, Cupid's match-maker.

It was about two thirds of the way through that number that the unthinkable happened

The conductor, Evelino Pidò, gave a flaming performance of the Act 3 Prelude, but fortunately managed to keep his cool when his leading lady demanded that he stop the show and start again. The other big interest of the production was seeing the work of the other half of the Alagna co-operative, designers David and Frédérico, Roberto's brothers. At this point the management of the Metropolitan Opera has to stifle a chuckle, as it brought down the guillotine when Roberto tried to suggest that his brothers take over *La traviata* in preference to the Met's choice, a certain Franco Zeffirelli. In the event, the sets for *L'amico Fritz* were solid and conservative.

By the end there was plenty to be thankful for. The curtain fell to enthusiastic cries of "Bravi!", "Roberto!", "Angela!" – everything except "Encore!" – but then we had heard the hit number twice already.

Richard Fairman

INTERNATIONAL Arts Guide

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Mar 11, 14

BOLOGNA

OPERA
Teatro Communale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessì and Alberto Cupido; Mar 14

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, women of the Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 11, 12, 13

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann in a staging by Kurt Horres, with designs by Andreas Reinhardt; Mar 10, 13

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 14

EDINBURGH

CONCERT
Queen's Hall
Tel: 44-131-668 2019
Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier. The programme also includes works by Dvořák and Schumann; Mar 11

LAUSANNE

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Dido and Aeneas: by Purcell/Curlew River: by Britten. Double-bill conducted by David Stern, with the Purcell staged by Marcel Bozonnet and the Britten by Yoshi Oida; Mar 12, 14

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● City of Birmingham Symphony Orchestra: conducted by Simon Rattle in Nicholas Maw's Odyssey; Mar 15
● London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 12
● Philharmonia Orchestra: conducted by Christoph von Dohnányi in Mahler's Symphony No. 9; Mar 13

MILAN

EXHIBITION
Palazzo Reale
Tel: 39-02-8691 5738
L'Anima e il Volto: (The Soul and the Face): major exhibition of portraiture, comprising 370 works ranging over 400 years; to Mar 14

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist Murray Perahia; Mar 10, 13
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's Petite Messe solennelle; Mar 11, 12
● Philharmonie der Nationen: conducted by Justus Frantz in works by Beethoven; Mar 14

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Art Across Borders: Classical Modernism from Cézanne to Tinguely and World Art - as seen from Switzerland. Display of the collection made by Swiss recluse Josef Müller (1887-1977), which combined European modernism with classical antiquities and pre-Colombian art. Includes works by Cézanne, Kandinsky and Miró; to May 30

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 12, 14

NAPLES

EXHIBITION
Museo di Capodimonte
Mattia Preti between Rome, Naples and Malta: first of three special exhibitions marking the 300th anniversary of the death of Mattia Preti (1633-1699), the southern Italian painter known as 'Il Cavaliere Calabrese'. The show emphasises the influence of Caravaggio, and includes about 60 paintings and 30 drawings by Preti and his contemporaries; to Jun 11

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Paavo Järvi in works by Paul Creston, Bartók and J. Brahms; Mar 11, 12, 13

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 10, 13

PARIS

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which forms the mainstay of the museum's 'saison anglais'; to Jun 6

OPERA
Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 12, 15

PORTLAND

JAZZ
Schnitzer Concert Hall
Tel: 1-503-248 4335
Lincoln Center Jazz Orchestra: America in Rhythm and Tune. First date of the Duke Ellington centennial tour, led by Wynton Marsalis; Mar 10

ROME

EXHIBITION
Galleria Nazionale d'Arte Moderna
Tel: 39-06-322 981
Picasso 1937-1953: The Italian Years. Around 70 works, including paintings, sculptures, ceramics and drawings, from the period between 1937, when Guernica was shown at the Exposition Universelle in Paris, and 1953, when Picasso himself organised major exhibitions in Milan and Rome. Includes loans from the Picasso Museum in Paris; to Mar 14

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 11, 12, 13, 14

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Mar 10, 13

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● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Unreal remedy

The IMF is prescribing masochism for Brazil. Britain, post-ERM, suggests that there is an alternative way to the market's heart

On September 16 1992, sterling was released from the exchange rate mechanism of the European monetary system. In the course of that turbulent day, the UK authorities briefly raised the base rate of interest from 10 to 15 per cent in a futile attempt to ward off devaluation. This attempt failed. Once out of the ERM, interest rates fell progressively, to a low of 5.25 per cent in early 1994.

For the British economy, this was a turning point. As the chart shows, the exchange rate fell sharply at first, but soon stabilised. Inflation remained subdued. Most important, the economy proceeded to stage a strong recovery, with output expanding 2.5 per cent in the year to the third quarter of 1993 and then 4.9 per cent in the year to the third quarter of 1994. So strong a recovery could not have occurred without lower interest rates.

It is a happy story. It need not have been. The UK might have been in the hands of the International Monetary Fund. If the IMF had run true to form it would have insisted on higher rates. It is even easy to guess its argument. The UK, the IMF staff would have noted, was a country with a poor record on inflation and a long history of currency depreciation. The fiscal position was also deteriorating swiftly at that time. Now that the exchange rate anchor had failed, the UK had to regain lost market confidence. So what would good Dr Fund have proposed? Higher interest rates. With higher rates, the economy in collapse and the fiscal position worsening, the Lord knows what a mess the UK would have become.

A nightmare? Certainly. Inconceivable? Hardly. The IMF's canonical view on interest rates in a currency crisis is clear and brutally simple. By definition, it argues, the country is suffering a loss of confidence. It runs the risk of being caught in an inflation-devaluation death spiral. Moreover, the risk of such a spiral arises almost irrespective of the country's record. Indeed that point is explicitly made in the IMF's assessment of its performance in the Asian crisis.* Higher real interest rates are, argues the IMF, a necessary condition for restoring lost confidence.

This view then is why the course of interest rates in Brazil, as shown in the chart, has been so different from that in the UK. High interest rates were used, unsuccessfully, in the foolish (IMF and US-backed) attempt to sustain the *Real*'s dollar peg, this having been Brazil's biggest error. But things grew worse, not better, following the floating of the *Real* on January 15. Short-term rates were then raised steadily, from 29 per cent in mid-January to around 39 per cent by the beginning of February. They then jumped to 45 per cent on March 4. The panic continued, all the same.

Do not forget that until the shock of the devaluation, *inflation had been low in* Brazil, as the chart also shows. The real interest rates Brazil has suffered have been inconsistent with healthy economic growth. Now they will help generate recession. The latest Brazilian economic memorandum, accompanying the agreement with the IMF announced on Monday, suggests the economy will now contract by between 3.5 and 4 per cent this year.** Experience suggests that this preliminary assessment of the results of a devaluation-cum-high-interest rate package will prove too optimistic. J.P. Morgan already forecasts a contraction of 5.5 per cent of gross domestic product in 1999.

So Brazil, here comes recession. *It is horrifying* to think this is the best the economics profession can come up with. For what the IMF is saying (to acclaim from market participants, central banks and ministries of finance around the world) is that the only way for a government to restore market confidence is to demonstrate its willingness to inflict misery on itself and its society. This is, in short, a masochist's route to credibility.

It would be unfair to say there is no defence for such a policy. Higher real interest rates do increase people's willingness to hold a currency, other things being equal. But note that the annualised rate of interest required to persuade people to hold a currency expected to depreciate by 1 per cent a day is over 3,600 per cent, not 45 per cent. Note, above all, that the extent to which unsustainable policies can restore credibility is at the *least open to question.*

Why is a high interest rate policy unsustainable in Brazil? An obvious answer is that no government will find it easy to survive a depression. But there is a more direct reason: the fiscal position. It is almost universally agreed that the government's pre-devaluation policies lacked credibility for two reasons: the overvaluation of the *Real* and consequent external imbalance (with current account deficits running at around 4 per cent of GDP) and the fiscal deficit.

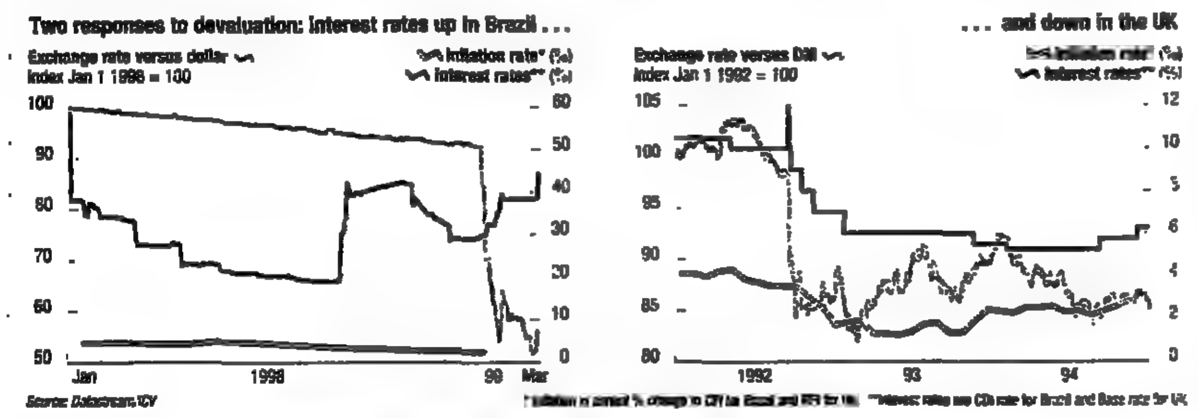
Now just the fiscal deficit remains. But at around 50 per cent of GDP, Brazil's public indebtedness is not particularly high. Moreover, the country has a primary fiscal surplus (balance, *without interest payments*), targeted at 3.1 per cent of GDP for this year. Thus Brazil's fiscal deficit of 8 per cent of GDP last year is entirely explained by interest payments. Its difficulty, however, is that the cost of 70 per cent of its domestic debt is determined by the floating interest rate. According to J.P. Morgan, at an interest rate of 40 per cent and an exchange rate of R$2 to the dollar, the costs of debt service become a horrifying 17 per cent of GDP.

So high interest rates are themselves the chief cause of the loss of confidence in domestic monetary stability that they are expected to cure. Worse, if the impact of high interest rates on the economy is bad enough, even the primary budget surplus is likely to disappear, as revenue contracts and spending on goods and services rises. This then is a true vicious *circle. Brazil is trying to* restore confidence with policies that seem bound first to undermine it.

Are there less economically damaging and more effective alternatives? The answer depends on what determines that elusive asset, confidence. If it is true that – for all but the biggest advanced economies – apparently unnecessary suffering is the only route to the market's heart, then there can indeed be no orthodox alternative. Confronted by a market panic and lacking access to sufficient foreign currency resources to halt the downward currency spiral, the country has to embrace the pain. But is this really the best the world can recommend? And, if it is, how long will it be able to sustain the orthodoxy it proclaims?

**IMF-Supported Programs in Indonesia, Korea and Thailand: a Preliminary Assessment, January 1999; **Brazil Memorandum of Economic Policies, March 8 1999. Both available via http://www.imf.org*

Martin.Wolf@ft.com



PERSONAL VIEW JAMES A. HARMON

Rule and prosper

Crisis-hit developing countries need to adopt and respect the rule of law if they want to attract private capital from abroad

If there is one thing that we have learned from the financial crisis in the developing world it is that a global economy requires rules of law that are fair and predictable in every country.

Countless corporate borrowers from Manila to Moscow have been battered by the global crisis, leaving many insolvent and their foreign creditors shell-shocked, not knowing whether they can recover assets in countries where the rule of law is absent. While the crisis has occasioned many calls for a "new financial architecture" and for economic policy changes in emerging markets, the lack of private-sector confidence among foreign investors has been neglected.

Yet this issue is vital. Private credit flows to the developing world have *declined precipitously*, from $200bn in 1996 to less than $20bn projected this year. There can be no real recovery until the fall is reversed. How can it be?

From our experience at the Export-Import Bank of the US, whose mission is to sustain jobs by supporting exports to these challenging markets, it is easy to understand why lenders are unlikely to make loans to companies that, if they default on their debts, will be protected by vague laws or cosy relationships with local courts.

If lenders and investors are so wary – and no one is rushing into crisis-affected countries these days – where will the capital come from to re-start growth? And if growth does not resume, what will happen to hundreds of millions of people whose living standards have plummeted in the last year? We are not talking only about lost fortunes, but lost jobs and lost hope – including jobs in developed countries.

Unlike the industrialised nations, where well-developed bankruptcy laws provide fair protection for creditors and borrowers alike, many developing countries are without a genuine and predictable rule of law to restructure financially threatened companies. All too often, creditors have no idea how they will fare, because they do not know the rules and often cannot know how they will be implemented. We have attended credit meetings where no balance sheets or financial statements can be produced.

In Indonesia, courts refuse to recognise the concept of acceleration or that swap obligations represent debt. The Philippines' Securities and Exchange Commission's jurisdiction over insolvency undermines protections afforded by Philippine bankruptcy law and principles of due process. In Thailand, some legislators who happen to be major shareholders of insolvent companies oppose enactment of laws to effectively enforce liens. In Russia, legal claims are often simply not recognised by courts. After the crisis hit, new bankruptcy laws were adopted in Thailand and Indonesia, but hopes for improvement were short-lived.

In many emerging markets, international creditors are also treated to the spectacle of preferential and fraudulent transfers of assets from insolvent companies. Creditors lack effective legal recourse, and are unable to get debtors to co-operate in consensual or court-supervised restructurings based on full financial disclosure. This state of affairs, often resulting from cronyism benefiting wealthy, politically connected local businessmen, was easily overlooked during the go-go years of 8 to 10 per cent annual growth. But, when the chips were down – as they have been since east Asian, Russian, and now Brazilian currency devaluations – this cronyism casts a long shadow of uncertainty over foreign lenders.

In short: Capitalism without the rule of law is capricious, dangerous and not conducive to reasonable risk-taking.

While the United Nations, the International Monetary Fund and others are working to help enact and enforce legal concepts so familiar in industrialised nations, this will take time – time that many developing countries do not have. In the meantime, the IMF, export credit agencies, banks and other sources of private financing must develop incentives for these countries' governments to recognise their obligation to provide a transparent, equitable and predictable legal infrastructure for creditors – and they need to make it work.

One approach would be for developing countries to establish impartial financial restructuring boards, which would allow creditors to voice complaints publicly and seek redress. The IMF could make rescue packages contingent on the creation of such an office. International creditors, including export credit agencies backed by the power of their governments, can make their assistance dependent on governments exercising responsibility to insure fair solutions. The private sector also could make access to capital conditional on such reforms. This would help rebuild confidence in doing business in many emerging markets.

Internationally accepted standards and legal mechanisms for restructurings are essential for lenders, commercial and public, again to provide the massive flows of capital that helped drive growth in many emerging markets in the early 1990s. Without the rule of law, it is unlikely that strong, sustained growth will resume. *Without that growth*, too many people in developing countries will be unable to resume their own progress from privation to prosperity.

The author is chairman and president, Export-Import Bank of the US

LETTERS TO THE EDITOR

Illogical to say non-African world should not intervene in Africa

From Mr John Mbiti.

Sir, Your leader "Africa's poison" (March 3) is, respectfully, wrong to suggest that the non-African world cannot and should not intervene in a complex African problem.

First, Africa's complex problems are in part due to European politics in the 19th century. In this regard, it would be incongruous to advocate that European countries have no responsibility in Africa. Second, it is somewhat perplexing that, while African problems require uniquely African solutions, Middle Eastern problems do not require uniquely Middle Eastern solutions. If logic be logic, and every region must solve its own problems, then perhaps the US should withdraw from its important role in eastern Europe. Because, after all, eastern Europeans need an eastern European solution to their problems.

John Mbiti,
414 W 44 Street 1E,
New York,
NY 10036, US

German company accounts favour caution

From Mr Martin E. Simons.

Sir, Ralph Atkins and Uta Harnischfeger are to be congratulated on their article about Oskar Lafontaine, Germany's finance minister, and his tax plans, and the table showing international corporation tax rates ("Lafontaine fights a rearguard action to defend tax ambitions", March 3). Germany heads the table with rates of *between 44 and 57 per cent* with the lower range applicable to profit distributors. The UK rate of 31 per cent is one of the lowest.

Those of us who have been examining German published accounts have long known that a principal aim is to produce a cautious balance sheet. That is facilitated by tax-allowed heavy depreciation charges, automatic stock and foreign trade debtor write-downs (with the latter representing a form of export subsidy). As a consequence, what would seem to be harsh rates of corporation tax are applied *to declared lower profits* than is customary in the UK.

Over-prudent accounting tends to create secret reserves year by year, thereby checking the growth of equity reserves, which in turn jacks up current return on published equity.

Apparent better equity returns linked with tucking away profits can lead to over-investment, which is also encouraged because too many financial analysts ignore some huge in-house pension reserves that are, in effect, loans to the business and should be included with debt when calculating leverage.

Martin E. Simons,
24 Granard Avenue,
Putney,
London SW15 6HJ,
UK

Japanese money supply and deflation

From Mr Divyang Shah.

Sir, You are certainly right to point out the three elements in the Japanese equation: lax monetary and fiscal policy coupled with financial sector reform ("Money for nothing", March 4). However, it is questionable whether an expansion in money supply (via monetisation) will be sufficient to prevent the deflation spiral that has its roots in structural deficiencies.

Monetisation will help increase the lag time of the economy adjusting to excess capacity and excess employment levels. From a theoretical standpoint, any inflation target requires a stable money multiplier, velocity of money and nominal gross domestic product. Given that the credit creation system has broken down, and uncertainty surrounding private demand, it is even more difficult to aim for an inflation target, let alone a money supply target.

The creation of liquidity without dealing with the financial sector troubles is likely to result in much of this liquidity moving out of Japan and accelerating the pace at which the yen depreciates. While this would help Japan in the medium-term, its impact will be limited as long as the financial sector remains dogged by bad debts on its balance sheets. A more palatable alternative is the purchase of bonds by the Bank of Japan in order to use the proceeds to remove the bad debts from the balance sheets of the financial sector.

However, dealing with the liquidity issue is easier than undertaking a wholesale restructuring of the banking sector in order to make it more profitable – to which one of the necessary conditions is to reduce the capital of the banking sector.

At present Japan seems unable to take such a bold step and thus the risk is of another stop-gap measure that leaves restructuring a distant prospect for the financial sector.

Divyang Shah,
global strategist,
IDEA,
Lincoln House,
296 High Holborn,
London WC1V 7JH, UK

Motor industry is changing

From Ms Niki Leahy.

Sir, John Kay's comments on the globalisation and scale economies of the motor industry ("Where size isn't everything", March 3) misses several points relating to the changing cost and price structure of vehicle manufacture.

Consolidation within the industry is now leading to a "levelling out" of market share between a larger number of dominant producers – as can be seen in both European Union and North American markets. In future, global distribution networks, rather than global volume capacity, will determine competitive advantage and commercial survival.

Profitability is no longer a result of economies of scale in global production and sourcing but dependant on maximising output to the *point optimum with product* differentiation, for supplying global market segments, in which no producer occupies a dominant position.

Production break-even can be achieved at lower output volume, provided it is sufficient to recover the additional, specific costs that relate to the particular supply decision. Prices are calculated to maximise total contribution to profit according to percentage market share.

Fragmented global markets will not end the domination of mega-volume producers, but they will end the high-volume capacity and economies of scale advantages that have previously been used to offset the industry's high fixed operational costs.

In future, controlling sales and administration costs, and reducing costs occurring over the customer lifecycle, will be of far greater significance.

Niki Leahy,
Dim View,
Howbury Street,
Bedford, UK

Number One Southwark Bridge, London SE1 9HL

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday March 10 1999

Nato balancing act in the East

History will be made this Friday when the Atlantic alliance takes in three new members – Poland, the Czech Republic and Hungary – even though they are far from the Atlantic. The signing ceremony at the Truman Library in Independence, Missouri, lifts what one Polish minister called the geopolitical curse on his country of being on the wrong side of the east-west divide in 1945, for which Hungary and Czechoslovakia also had to suffer Soviet military oppression in 1956 and 1968 when they sought to renounce or dilute their membership of the Warsaw Pact.

So this trio of central European countries has cause for celebration at "coming home", and Nato's existing 16 members have reason for satisfaction at the expansion of their alliance, the longest-lasting military pact in modern times. Yet there is a deceptive ease about Nato enlargement that carries risks.

The process of negotiating entry into Nato is nothing like as complicated or costly as the eastward enlargement which the European Union is also pursuing and which will take much longer. From start to finish, the incorporation of the Poles, the Czechs and Hungarians into Nato has taken less than two years, at a cost to Nato of less than $2bn. Nato has committed itself to keeping its door open to still more members. But there are plenty of potential pitfalls down this road. The biggest of these would be to alienate Russia when it may soon pass into the hands of someone less sympathetic to the west than Boris Yeltsin. Taking Nato right to the borders of Russia will not increase western security if it also fuels Russian resentment. Moscow may one day again be strong enough to threaten the west.

Baltic membership

Nine more countries are knocking at Nato's door. None of them will get an invitation to join from next month's Nato summit in Washington. But this is partly because Nato allies disagree on the direction of any expansion. France and Italy have put priority on the south – Romania and Slovenia. Other Nato states are cooler on enlargement, but their arms industry is keen on new markets. This is particularly true of the US, which has also made commitments to the Baltic states. New Nato members do not want to be left on the alliance's edge; so Poland, too, backs Baltic membership. Such a prospect brings an allergic reaction from Russia, which says it is flatly opposed to any former part of the Soviet Union joining Nato.

Closer alignment

It is time to take a harder look at the criteria for Nato membership. First, countries should not be encouraged to join Nato long before the EU simply because it is organisationally easier for them to do so. Closer alignment of Nato and EU membership would also make sense if the EU is to take on a defence role, and avoid putting other countries into the category of Turkey, in Nato but outside the EU.

Second, Nato has to weigh its own strategic interest in enlargement. It is increasingly asking its members for the political will and military capacity to take part in crisis management and peacekeeping outside the Nato area. Potential members should be judged by whether they would contribute to these new tasks.

Finally, it would be wise to blur the distinction a bit more between Nato's "ins" and "outs". Obviously, some distinction must remain, if the collective rights and responsibilities of full membership is to mean anything. But Nato has run a very successful Partnership for Peace with many outside countries for the past few years, and the Washington summit is expected to offer applicant countries a new Membership Action Programme to help them get even closer to the alliance.

This might not lessen countries' appetite to become full members of Nato, but it should minimise the creation of new dividing lines across Europe.

D'Alema's dilemmas

The determination of Romano Prodi, Italy's former prime minister, to ensure his country's entry into European economic and monetary union was impressive. Yet doubts remained about how Italy, with its heavy burden of government debt, would cope within a single currency. And already, the country is facing problems in its attempts to keep up with the euro-zone pace.

Output growth in Italy last year was the slowest of all the euro-zone economies, at 1.4 per cent; and most forecasters are predicting that growth this year will not be much higher. There are a number of reasons for this. The Asian crisis hit Italy much harder than many other European countries. The withdrawal of the government's incentives for car purchase is another factor. And the contractionary effects of the pre-Emu budget squeeze are still being felt.

Yet Italy's politicians must surely have hoped that the massive monetary policy boost provided by a fall in short-term interest rates from 9 per cent in 1996 to 3 per cent now would kickstart growth again – as it has done, for example, in Spain. Why is this not happening?

One explanation is that Italy has traditionally been a nation of savers. A large fall in interest rates means that these savers will get a lower income from their investments. The contractionary effect this has could easily outweigh the impact from cheaper borrowing rates.

The counter-argument is that as interest rates have come down, so inflation has fallen, meaning that real returns have not fallen by much. However, the psychological effect of lower nominal rates could still be strong.

Italian business

A more important point is that lower rates should still have a powerful effect on Italian business, which has a relatively high level of indebtedness, much of it short-term. In addition, Italy's household savings ratio has been falling steadily for some time and is now not greatly out of line with the rest of continental Europe. Perhaps the effects of monetary policy are weaker and take longer to be felt in Italy than, say, in the UK; but there is no reason to think that policy would be ineffective.

Structural problems

The alternative explanation for the puzzle of why falling interest rates have not boosted growth is that Italy's structural problems are constraining the economy's ability to expand. True, change is afoot in Italy's opaque corporate sector, with Olivetti's bid for Telecom Italia likely to prove a watershed.

But in his five months in power, Massimo D'Alema, the prime minister, has failed even to make a start on tackling other obstacles to economic progress. Italy's labour market remains one of the most rigid in Europe. Greater investment in infrastructure is needed, particularly in the south. And Italy's pension system absorbs a huge 15 per cent of gross domestic product; without reform, it will be extremely difficult to bring down the overall level of taxation.

This lack of further structural fiscal reform, together with sluggish output growth, means that Italy's progress in meeting its budget targets could be slow – as the European Commission warned only last month. Although the targets for the general government deficit are being met, this is chiefly because of the effect of lower interest rates on the government finances. The primary surplus (which excludes debt payments) actually slipped back significantly in 1998 from the previous year.

The margin for manoeuvre afforded by low interest rates means that there is an opportunity for the government to make real progress on structural reform. Unfortunately, all the indications are that Mr D'Alema's government will be too weak to take action. It is time for him to prove his critics wrong.

Best of the UK Budget, page 8

The smiling face of Iran

President Khatami has launched a charm offensive in Europe to attract foreign investment into his oil-rich but capital-starved country, say David Gardner and Robin Allen

Mohammad Khatami, the smiling face of Iran, arrived in Italy yesterday, fresh from winning what was in effect a referendum on his attempts to reform the Islamist revolution in recent elections to town and city councils.

This is the first state visit to a western country by a leader of the Islamic Republic which in 1979 replaced a pro-western monarchy with a fearsome theocracy. It is Mr Khatami's first shot in a charm offensive designed to enhance his and his country's international stature – and above all to break free from continuing US attempts to isolate Iran's oil-rich but capital-starved economy.

Italy is a modest enough beginning for such a campaign. It was chosen because Lamberto Dini, foreign minister, and Romano Prodi, then prime minister, were the first western leaders to visit Tehran last year and demonstrate some understanding of Iran's evolution. But Iranian and western officials say the engaging reformer's ambition should not be underestimated.

"The Iranians see Italy as a bridge to a wider dialogue with the European Union which they expect to consolidate when Mr Khatami follows up his talks in Rome with official visits next month to France and possibly Germany," says one senior European diplomat in Tehran.

There are powerful domestic reasons why Mr Khatami should be seeking dialogue with Europe. Respect abroad is translatable into increased authority at home. Despite his popularity, Mr Khatami is constrained by hardliners who use religious dogma to defend the power and wealth they have built up since the revolution. This is doubly so in a system like Iran's, of competing but fluid power centres, where power flows to where power is perceived to lie. As the leading pro-reform daily Salam observed on Sunday: "The success of the reformers in the local polls will pave the way for Khatami to carry forward his foreign policy: it will help him to act with greater authority."

There are three connected objectives of Mr Khatami's campaign. They are: to win western endorsement of his efforts to create accountable government under the rule of law; to foster international acceptance of Iran as a regional power with legitimate security interests in the Middle East and central Asia; and to begin enticing the foreign investment Iran desperately needs to employ its fast-growing population, two-thirds of whom are under 25.

The reformist president, elected by a landslide nearly two years ago, enjoys unquestionable legitimacy among the country's young population. They support Mr Khatami with a fervour bordering on adulation.

The municipal contests of two weeks ago showed that his reform coalition is intact and on the march. Still incomplete results indicate it won around 70 per cent of all seats, sweeping the capital and Isfahan, which rivals Tehran in political ferment.

These were the first municipal polls since the revolution. In fact, they were the first local elections in over 2,500 years of Persian history. More to the point, they mean that supporters of Mr Khatami now have every chance of thrashing the theocrats in next year's elections to the *Majlis* or parliament – currently a bastion of resistance to reform – and winning his re-election in 2001.

If by then he has managed to acquire what one senior European official calls "real international standing", it will be very difficult for his opponents to bring him down.

As Mr Dini put it this week: "A new course has been set by President Khatami and he needs and deserves our encouragement. He should feel it is not our intention to isolate Iran or to keep him in a religious ghetto."

The difficulty faced by Iran's hardliners is not only the sheer scale of the two defeats Mr Khatami has inflicted on them. It is that the evolutionary reform offered by the president legitimises the continuity of the Islamic Republic. But while this confers enormous advantage on the reformers, Mr Khatami also faces difficulties of his own.

To begin with, Islamist theocrats still hold many of the country's power levers. It is not Mr Khatami but Iran's supreme leader – Ayatollah Ali Khamenei, who succeeded the revolution's late leader, Ayatollah Khomenei – who controls foreign and defence policy, the intelligence services and judiciary, and about 80 per cent of Iran's economy through revolutionary "foundations" or *bonyads*.

The shadowy masters of these power centres have every interest in opposing rapprochement with the west and the open trade and investment which would follow, because that would end their control of a rickety but lucratively rigged economy.

Evidence that the interests of the theocrats are at least as much material as spiritual is that they resorted late last year to the assassination of half a dozen reformist intellectuals the moment the government started trying to audit the *bonyads*, states-within-the-state which monopolise the provision of some 5,000 goods and services. Put another way, for every American like Professor Samuel Huntington of Harvard University, who posits a "clash of civilisations" between the Christian west and militant Islam, there is a well-heeled mullah egging him on.

'Iran is not willing to open its books. The US would be among its inquisitors, and Iran will not countenance that'

In its stead, Mr Khatami has proposed a "dialogue of civilisations", which he will begin with the Vatican tomorrow at an unprecedented meeting with Pope John Paul II. At home, though theocrats fear Mr Khatami's dialogue will end clerical rule and privilege.

The west, for its part, is anxious about Tehran's apparent attempts to develop nuclear weapons capability with Russian assistance – as Massimo D'Alema, Italy's prime minister, has said he will make clear this week. It is that fear which is fuelling the drive for bigger and better sanctions against Iran in the US Congress, few of whose members see any electoral profit in a dialogue with Tehran of any kind.

But with Israel's unacknowledged nuclear arsenal to its west and India's and Pakistan's new nuclear capability to its east, Iran feels it has the right to defend itself. It could push ahead with its weapons programmes unless it feels the west is prepared for genuine co-operation on security in Iran's unstable surroundings.

The nuclear issue and US sanctions on Iran greatly complicate Mr Khatami government's efforts to reform the economy.

And it is not clear that Iran can delay structural reforms for much longer. The currency is sliding, the budget deficit is soaring, and unemployment and inflation are both acute. Iran needs to attract around $10bn a year in foreign investment to return to stable annual growth of about 5 per cent. It also needs to reschedule its foreign debt, most of which is short-term.

Of Iran's $23bn foreign debt, $11.9bn is short-term. This means that Iran must often resort to refinancing obligations under unfavourable terms, particularly now that oil revenues, which comprise 80 per cent of hard-currency earnings, are low.

"The scale of this foreign debt is not the problem," according to one senior European diplomat. "Compared with Turkey's $100bn or more and the scale of Iran's resources, its debt could easily be entirely rescheduled and put on a viable basis, if only Iran would take its problem to the Paris Club of OECD governments. But Iran is not willing to open its books. The US would be among its inquisitors, and Iran will not countenance such a prospect."

Moreover, Mr Khatami's campaign to present the smiling face of Iran contrasts strongly, businessmen and bankers in Tehran say, with the fearsome bureaucracy that awaits foreign investors. Last month, for instance, the *Majlis* passed a budget law which highlights the country's schizophrenia about foreign investment. On the one hand the law, effective from the beginning of the 1999-2000 fiscal year starting on March 21, held out for the first time the prospect of 49 per cent foreign equity partnership in Iran's refineries. But the same budget law proposes to slap an income tax of 50-60 per cent on the salaries of all foreign residents, plus a corporate tax of 30 per cent, payable by foreign companies, on the collective salary of all their foreign employees.

The dysfunctionality of the law betrays Iran's preoccupation with security. Its ostensible purpose is to force foreign companies into three "free trade zones" on islands in the Gulf. "That way," one senior European diplomat says, "Iran's bureaucracy and security apparatus will have foreign businessmen where they can be more easily kept under surveillance."

Even if foreign businessmen find a way round the "free zone" hurdle, they are met by a bureaucratic jungle of officials who are appointed, according to Ali Rashidi, an economist, for "reasons of nepotism and political favouritism rather than on merit".

Bankers complain that simply to get the central bank to confirm buyer letters of credit, a private sector client has to go through no fewer than 23 procedures involving three different government ministries and five separate departments of the central bank.

These include a honeycomb of offices ranging from the secretariat of the foreign exchange market supervision committee, to the foreign exchange policies and regulations department, the international finance department, the general credit agreements department, the foreign exchange control department, and the foreign debt department.

Even under Mr Khatami, therefore, Iran is not for the faint-hearted. Widely known across his country as "the laughing son of the prophet [Mohammed]", in the 18 months since he took office he has set Iran on a course of political devolution and reform.

But there is little to smile about in the obstacles he still faces. To surmount them, he is now seeking support in the west.

OBSERVER

Bonino breaks for the border

The large newspaper advertisements earlier this week left no one in any doubt that Emma Bonino, the European Commissioner responsible for fisheries, consumer policy and humanitarian aid, had launched her campaign to become president of Italy.

But Observer remains puzzled. The Commission has just unveiled new codes of conduct for its members which frown upon activities that might represent a conflict of interest. A Brussels official is swift to clear things up, insisting Bonino isn't really a candidate.

It's all quite simple: because the president of Italy is chosen behind the closed doors of Rome's party headquarters, the "non-candidates" do not go out and campaign. "If there is no election campaign, then there is no conflict between this non-candidature and the code of conduct," a Commission official explains.

As a member of the marginal Radical Party Mrs Bonino stands little chance of being reappointed to her seat in Brussels. So it's only fair she should be allowed to look for a new job.

Barking mad

Those spending watchdogs at the United Nations seem to have sniffed out a scandal. Namely – the vexed question of whether the UN paid more for a security dog than an under-secretary-general.

A Costa Rican envoy has apparently raised the issue before the main UN budget committee. It's said the dog in question is costing $150,000 a year, while the impoverished under-secretary-general takes home a mere $140,000.

But all those officials thinking of demanding a pay rise should take heart. Observer's hounds have been on the trail, and have discovered the canine fee may include a handler. Even so, paying one man and his dog that much really does take the biscuit.

Board games

There's safety in numbers at Credit Suisse. Switzerland's second biggest bank has just set up not one but two new advisory boards to aid its own star-studded group board.

Helmut Kohl, the former German Chancellor, Telecom Italia's Franco Bernabe and Bayer's Manfred Schneider are some of the heavyweight figures invited on to Credit Suisse's 12-strong international advisory board. The new Swiss advisory board is bigger still, with 18 members who will no doubt be wined and dined in return for raising "issues of concern".

It's an odd move since international advisory boards have fallen out of favour as banks have become more cost-conscious. Swiss Bank Corporation scrapped its council of international advisers a couple of years ago because it was worried about conflicts of interest with its investment bank.

SAir Group, parent of Switzerland's national airline, has just set up an advisory board, but at the same time halved the size of its own 19-strong board. Credit Suisse, on the other hand, will continue to have 18 directors on its main board.

That's far too many for effective decision-making. But then cynics might argue that it's Rainer Gut, Credit Suisse's well-connected chairman, and not his board, who has always called the shots.

Kopper bottom

Former Deutsche Bank chairman Hilmar Kopper once made a bit of a gaffe by describing his bank's property-related losses as "peanuts". He's capitalised on the remark ever since. For instance, he recently featured in a Frankfurter Allgemeine Zeitung advert reading the paper while perched atop a railway wagon full of peanuts in Georgia, USA. A reference to him on the internet even refers to his peanut crack as well as giving details of his blood pressure.

But the latter may be set to rise. Kopper, wearing another of his many corporate hats as chairman of the supervisory board of DaimlerChrysler, is being furiously accused by other supervisory board members of keeping secret details of new contracts entitling main board members to big pay increases and generous stock options. In that context, talk of peanuts just isn't on.

Signing off

At last! The finger of fate has given foreigners living in Japan a helping hand. Foreigners setting up home in Japan have long been required to submit their fingerprints for registration purposes. But now, after 47 years, the government has agreed to revise the rule – and substitute signatures for fingerprints.

The rule has been a bone of contention in Japan as foreigners see it as an infringement of human rights. So much so that in 1992, legislation was revised to stop fingerprinting for those with permanent residency status.

The most recent decision will abolish the requirement for all foreigners, regardless of residency status, and is expected to affect some 600,000 residents.

But there are still some ruffled feathers as many foreigners are obliged to carry alien registration cards at all times. Evidently, foreigners' human rights, like Rome, weren't built in a day.

The Financial Times 100 years ago

A Come-down For The El Dorado Of North America
After all the accounts of the fabulous wealth of the Klondyke, it is strange to read that money is remarkably tight in Dawson City. Yet this is the statement made by the special correspondent of the Toronto Globe, who adds that 10 per cent. per month is quite a common rate of interest, and that 15 per cent. is being freely offered, just because the delay in the mails has prevented remittances from reaching the town. We would have imagined that a few of the nuggets about which so much has been written might have saved the situation. It is a sad come-down for the capital of the new El Dorado to have to depend on outside sources for its petty cash.

50 years ago

U.S. Gold Imports
Washington, March 9. South Africa furnished the whole of America's gold imports of 90,283 Troy ounces in the week ended February 16, Department of Commerce statistics disclose. Exports of the metal were 29,500 Troy ounces, all to Poland and Danzig.

FINANCIAL TIMES
WEDNESDAY MARCH 10 1999

THE LEX COLUMN

Coughing up

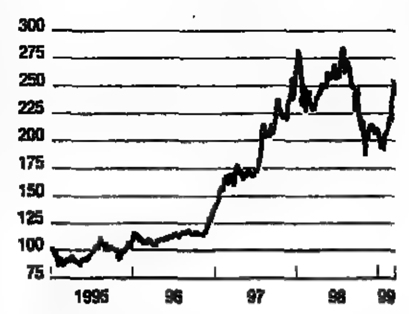
RJR Nabisco has certainly extracted a puffed-up price for its international tobacco operations. The $8bn Japan Tobacco is paying equates to 15 times earnings before interest, tax and depreciation – nearly twice what BAT paid for Rothmans two months ago and far higher than the valuation accorded quoted rivals like Imperial or Gallaher. Such largesse can only be explained by the Japanese group's desperation to expand overseas as it loses market share at home.

This coup should see off corporate raider Carl Icahn, who has built a 7.7 per cent stake. It cuts RJR's net debt to $3bn and paves the way for a separation of the remaining US tobacco and Nabisco food businesses. RJR's 80.6 per cent stake in separately listed Nabisco is worth nearly $30 a share. On a cautious 12-13 times earnings, the domestic tobacco unit adds another $13-$14.

There is a caveat: the existing holding company, which will end up with just the Nabisco stake following the demerger, will retain its exposure to tobacco litigation claims. Nevertheless, with RJR's shares at just over $30, there is substantial value to release.

It might also boost rivals, by creating a pure, quoted US tobacco company as a comparator. At present, the US tobacco operations of Philip Morris and BAT are valued at close to zero by the market.

Sony
Share price relative to the Nikkei 225 Average



Source: Datastream/ICV

Telecom Italia/Olivetti

How do you enfranchise non-voting shareholders without making voting shareholders unhappy? Telecom Italia's financiers have devised a clever answer. The simple approach of giving the savings shareholders ordinary shares on a one-to-one basis is unattractive. The savers would be more than happy with such a plan – after all, their shares currently trade at €5.80 compared with €9.70 for the ordinary shares. But ordinary shareholders might feel they were cheated if their voting privileges were diluted without any *quid pro quo*. And there is no point in antagonising the voting shareholders, as they will determine whether Telecom keeps its independence in the face of Olivetti's onslaught.

Hence a scheme being considered by Telecom for giving all shareholders conversion warrants. Collect enough of these warrants and savings shareholders would be able to convert into voting shares. The twist is that – because each shareholder would probably be given only three warrants but 10 would be needed for conversion – the savings shareholders would have to buy the remaining seven from ordinary investors.

This mechanism could kill two birds with one stone. First, ordinary shareholders would receive cash – perhaps as much as €1 a share. Second, the savers would be enfranchised. That would make Telecom an even bigger mouthful for Olivetti to swallow, as it is not currently bidding for the savers. The only caveat is that this scheme may be too clever by half.

Sony

Sony's restructuring announcement verged at times on the opaque. A "unified dispersed" management model does not exactly trip off the tongue. But it would be wrong to underestimate the courage of what is being proposed.

The company's overhaul is twofold. First are its efforts to improve profitability in its electronics operation, which has been hit hard by the strength of the yen and savage price erosion, especially in the Japanese market. Certainly the company's third quarter results raised fears over its operating profitability for the fourth quarter, despite the great strength of the Sony brand. The impact of cost-cutting on profitability is tricky to quantify. Reducing headcount by about 10 per cent by the end of March 2003 sounds chunky, but, as with NEC's recent restructuring announcement, it is unclear how many of these jobs cuts would have come anyway through natural wastage. Reducing Sony's manufacturing facilities from 70 to 55 may turn out to be the more significant measure.

Second, and possibly more radical, is Sony's shift in management and culture. The company stressed the importance of profitability. More outside directors and greater transparency in its head office operations should put pressure on headquarters personnel to explain how they add value to the sprawling group. Competition is hotting up between Japan's electronics conglomerates keen to demonstrate their shareholder-friendly credentials.

UK Budget

This was a pre-election Budget. And probably the first of three at that, given that the election is unlikely to be held until 2001. As ever Gordon Brown, the chancellor, has been clever politically. The tax cuts announced yesterday kick in modestly; the net tax give-away is only £1.1bn in 1999-2000. But by 2001-2002, the probable election year, the give-away has increased to £3.6bn.

Mr Brown presumably hopes voters will have forgotten the abolition of various tax privileges when they enter the polling booth, but will still be grateful for the lower income tax rates.

Despite the tax cuts, the government's net borrowing still manages to fall a touch in each of the next three years. How come? Reduced interest payments on government debt, a lower contingency reserve and accounting adjustments are the answer. Together they cut government spending by an average of £5bn a year, more than enough to pay for the lower rates of income tax.

These are the sort of conjuring tricks UK chancellors love. Investors, though, will not be fooled by Mr Brown's arithmetic. The fiscal boost may be fairly small beer. But the bond market has already sold off in expectation that the Bank of England will now be less keen on cutting interest rates. A sober assessment is particularly appropriate if one thinks Mr Brown will cast more goodies in the voters' direction in his next two Budgets.

DIPLOMAT WITH REPUTATION FOR INFLUENCING MARKETS MAY DEPART IN RESHUFFLE

Japan's 'Mr Yen' likely to be replaced later this year

By Gillian Tett in Tokyo

Eisuke Sakakibara, Japan's high profile and controversial financial diplomat, is expected to leave his post as vice-minister of finance for international affairs later this year.

Any reshuffle at the ministry will be closely watched in international financial markets. In the two years that Mr Sakakibara, 57, has held the post, he has earned a controversial reputation for making comments that attempt to influence markets. He has become known as "Mr Yen" *for his reputed influence over the* foreign exchange markets.

Mr Sakakibara has also been more forthright in expressing his views to foreign bankers than most Japanese bureaucrats, partly because of his experience in the US as an academic and economist.

Although some foreign observers have welcomed his openness, it has sparked criticism in the ministry, and some bureaucrats sought to replace him last year. Officials say he is likely to be replaced by his low-profile deputy, Haruhiko Kuroda, 54.

The finance ministry insists that it has taken no binding decisions about the reshuffle. However, its rules for internal job rotation mean that Mr Sakakibara will almost certainly leave, unless Keizo Obuchi, Japan's prime minister, specifically intervenes.

In recent days Mr Sakakibara and the ministry have indicated that they are preparing for a reshuffle. For example, the ministry has recently asked Takatoshi Ito, an economics professor, to become Mr Sakakibara's assistant.

"Mr Sakakibara is more articulate and closer to the hedge funds than many of his predecessors," says Peter Morgan, economist at HSBC Securities.

The markets have seen Mr Sakakibara as a supporter of a "strong yen" policy, although he has modified this stance in recent weeks. As one US hedge fund manager says: "If he goes there is a chance that people could assume that there will be a weaker yen."

Mr Kuroda shares most of Mr Sakakibara's views on the currency and the markets. However, he is a career bureaucrat who has maintained a low profile. A reshuffle could therefore lead to a change in the ministry's market style.

Yoshito Sakakibara (no relation), economist at Goldman Sachs, said: "Mr Sakakibara's departure could reduce the influence that Japanese policymakers are likely to have over the foreign exchange markets."

However, some officials suspect that the planned recruitment of Mr Ito, 48, marks an attempt to maintain the ministry's contacts with foreign bankers and US officials.

Mr Ito is a close ally of Mr Sakakibara, and has also spent many years working in the US, including a stint at the International Monetary Fund. Mr Ito also has links with Lawrence Summers, US deputy Treasury secretary, since both men studied at graduate school in Harvard.

Mr Sakakibara has not yet indicated what post, if any, he may assume next.

In the past, retirees from that position have tended to perform "amakudari", a descent from-heaven, into a prestige job in the financial sector.

Toyoo Gyohten, for example, a former vice-minister, is senior adviser at Bank of Tokyo-Mitsubishi. But in the wake of scandals over excessively close links between financial institutions and the ministry, this practice has been outlawed.

Mr Sakakibara has recently told colleagues that he is considering returning to academic life, possibly at a think-tank or by founding his own research institute. He also has indicated that he would like to work in Australia, partly because he is fond of scuba-diving.

Eisuke Sakakibara: forthright in expressing his views to foreign bankers — AP

CONTENTS

British adventurer David Hempleman-Adams preparing to leave Eureka in the Arctic yesterday to attempt the first solo and unsupported expedition to the north geomagnetic pole. Picture: PA

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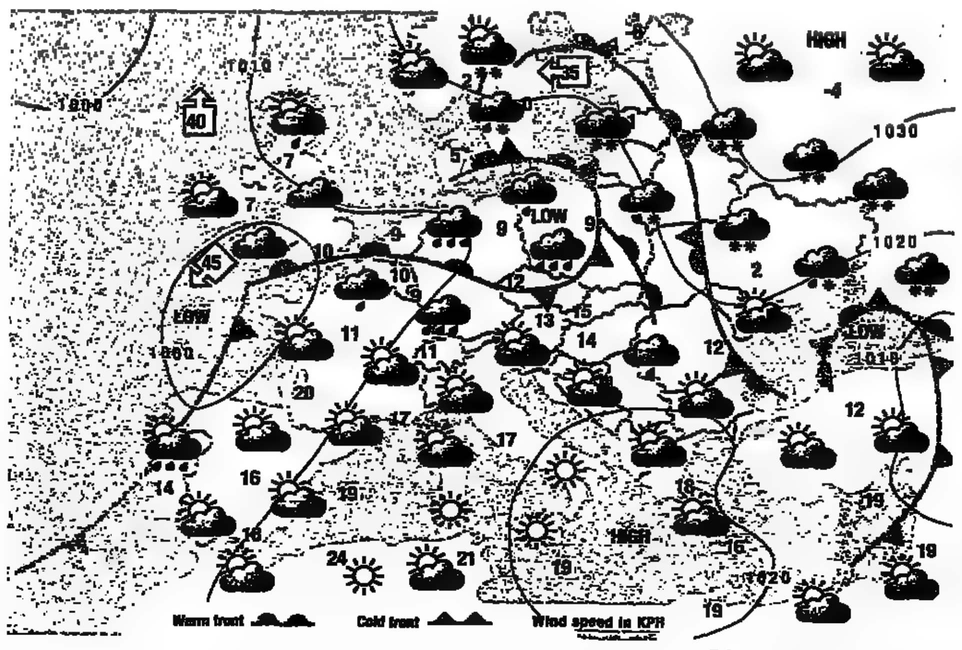
FT WEATHER GUIDE

Europe today
Western regions will be milder but heavy rain will move into western France and the north and west of the Iberian peninsula. Germany and the Low Countries will have sporadic rain but central regions should see some sunshine. It will also be sunny across south-east Europe and the Mediterranean, although a few showers are likely in Turkey. Snow in the north-east will turn to rain as milder air moves in from the west. Scandinavia will stay cold with some heavy snow showers and rain only in south.

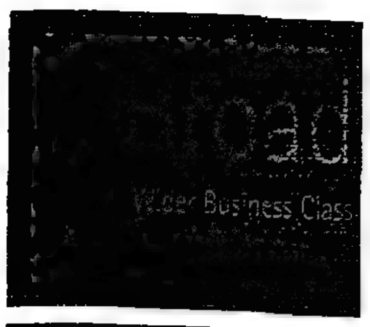
Five-day forecast
Heavy rain will spread farther east across the Iberian peninsula and western Europe but central and eastern areas will be mostly dry with some sunshine. Most of the Mediterranean will be sunny and warm. Scandinavia and the far north-east will have more snow.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	25
Accra	Fair	31
Algiers	Fair	24
Amsterdam	Rain	9
Athens	Sun	18
Atlanta	Fair	9
B. Aires	Fair	25
B.ham	Fair	8
Bangkok	[illegible]	[illegible]
Barcelona	Fair	17
Beijing	Fair	9
Belfast	Fair	7
Belgrade	Sun	18
Berlin	drzzl	9
Bermuda	Rain	16
Bogota	Fair	21
Bombay	Sun	32
Brussels	Rain	10
Budapest	Fair	15
C.hagen	drzzl	5
Cairo	Fair	22
Caracas	Fair	27
Cardiff	Shower	[illegible]
Casablanca	Shower	20
Chicago	Fair	1
Cologne	Rain	10
Dakar	Sun	24
Dallas	Fair	24
Delhi	Sun	33
Dubai	Sun	25
Dublin	[illegible]	7
Dubrovnik	Sun	16
Edinburgh	Shower	6
Faro	Shower	17
Frankfurt	Shower	13
Geneva	Fair	11
Gibraltar	Fair	18
Glasgow	Fair	7
Hamburg	Shower	8
Helsinki	Snow	-6
Hong Kong	Cloudy	18
Honolulu	Fair	24
Istanbul	Sun	11
Jakarta	Thunder	31
Jersey	Rain	9
Johannesburg	Fair	28
Karachi	Sun	28
Kuwait	Sun	27
L. Angeles	Fair	18
Las Palmas	Fair	21
Lima	Cloudy	28
Lisbon	Shower	14
London	Rain	10
Lux.bourg	Rain	8
Lyon	Cloudy	17
Madeira	Shower	17
Madrid	Shower	16
Majorca	Sun	19
Malta	Sun	19
Manchester	Fair	7
Manila	Shower	33
Melbourne	Shower	25
Mexico City	Fair	27
Miami	Fair	28
Milan	drzzl	13
Montreal	Fair	-2
Moscow	Sun	-4
Munich	Fair	13
Nairobi	Fair	27
Naples	Sun	18
Nassau	Sun	25
New York	Fair	4
Nice	Fair	16
Nicosia	Fair	19
Oslo	Sleet	2
Paris	Rain	11
Perth	Sun	31
Prague	Shower	12
Rangoon	Sun	35
Reykjavik	Snow	1
Rio	Thunder	31
Rome	Fair	17
S. Frsco	Shower	14
Seoul	Fair	9
Singapore	Thunder	33
Stockholm	Snow	0
Strasbourg	Shower	14
Sydney	Sun	26
Tangier	Fair	20
Tel Aviv	Fair	19
Tokyo	Shower	15
Toronto	Fair	-1
Vancouver	Rain	12
Venice	Fair	12
Vienna	Fair	13
Warsaw	Rain	9
Washington	Rain	6
Wellington	Rain	19
Winnipeg	Fair	-3
Zurich	Fair	12



FINANCIAL TIMES

COMPANIES & MARKETS

INSIDE

Bonds overshadow equities

A renewed burst of selling in bond markets overshadowed trading in equities, reversing initial gains in Europe and sparking early profit-taking in the US. A round of unexpectedly solid European economic data was the main focus for bond investors. Page 32

PDVSA's oil dream evaporates

The mood at Petróleos de Venezuela, the state oil company, has been gloomy in recent weeks. The collapse in global oil prices has triggered a series of draconian budget cuts that have plunged the economy into deep recession, while increased intervention by the government of President Hugo Chávez (left) threatens to downsize the company further. Page 17

GM reveals expansion plan

General Motors announced ambitious plans to expand its European sales and market share while recognising demand and pricing in most countries would deteriorate this year. Page 16

Venezuelan coffee industry perks up

As Venezuela's oil industry, the principal source of foreign exchange, is hit by record low petrol prices and production cuts, the Caribbean nation is rediscovering what was once its leading cash crop – coffee. Page 22

Yields on Japanese bonds rise

Yields on long-term Japanese government bonds rose sharply after a warning from the Bank of Japan governor that he expected long-term interest rates to rise again soon. Government officials' suggestions of an imminent tightening of bond trading regulations also damped the bond market. Page 20

Whispers warn of China devaluation

China raised interest rates yesterday for local accounts held in US and Hong Kong dollars, sparking rumours that the renminbi might be devalued. Page 21

Nikkei jumps back above 15,000

Shares in Tokyo closed above 15,000 for the first time in more than three months, buoyed by a surge in the high-tech sector and news of Sony's restructuring. Page 32

China urged to boost gold reserves

China should triple the ratio of gold in the foreign exchange reserves, which have become over-invested in US dollars, according to a recommendation by a senior official at the national gold bureau. The allocation of China's $145bn foreign exchange reserves, the second largest in the world, has the power to sway currency markets. Page 22

COMPANIES IN THIS ISSUE

CROSSWORD, Page 22

MARKET STATISTICS

New York supermarket chain sold for $1.7bn

By Gordon Cramb in Zaandam

Ahold, the Dutch supermarkets group, yesterday built on its US presence with a $1.75bn agreement to buy Pathmark Stores, which operates 132 outlets in and around New York.

The deal comes barely four months after Ahold completed the $2.8bn takeover of the Maryland-based Giant Food. Pathmark has a 12 per cent market share in metropolitan New York and a reach which stretches to New Jersey and Pennsylvania. It had sales of some $3.7bn last year.

This compares with the $16.2bn in revenues achieved by Ahold's existing US operations. Its presence in the US market was a main contributor to 1998 net profits of the Dutch group, also announced yesterday. These rose 29 per cent to Fl 1.21bn ($620m), on revenues ahead 15 per cent to Fl 58.4bn.

Ahold is to pay $250m for SMG-II Holdings – the vehicle for a leveraged buy-out of Pathmark carried out in the mid-1980s – and its SMGH subsidiary, making a $38.25 per share tender offer for SGMH's publicly traded preferred shares.

The rest of the purchase price reflects the assumption of $1.5bn in Pathmark debt. "Pathmark is a well-run company but under-invested because of a highly leveraged balance sheet," said Cees van der Hoeven, Ahold president.

The Dutch group will pay for the deal from its existing credit facilities, redeeming Pathmark's debt. It added: "Part of the debt restructuring may be funded with newly issued share capital."

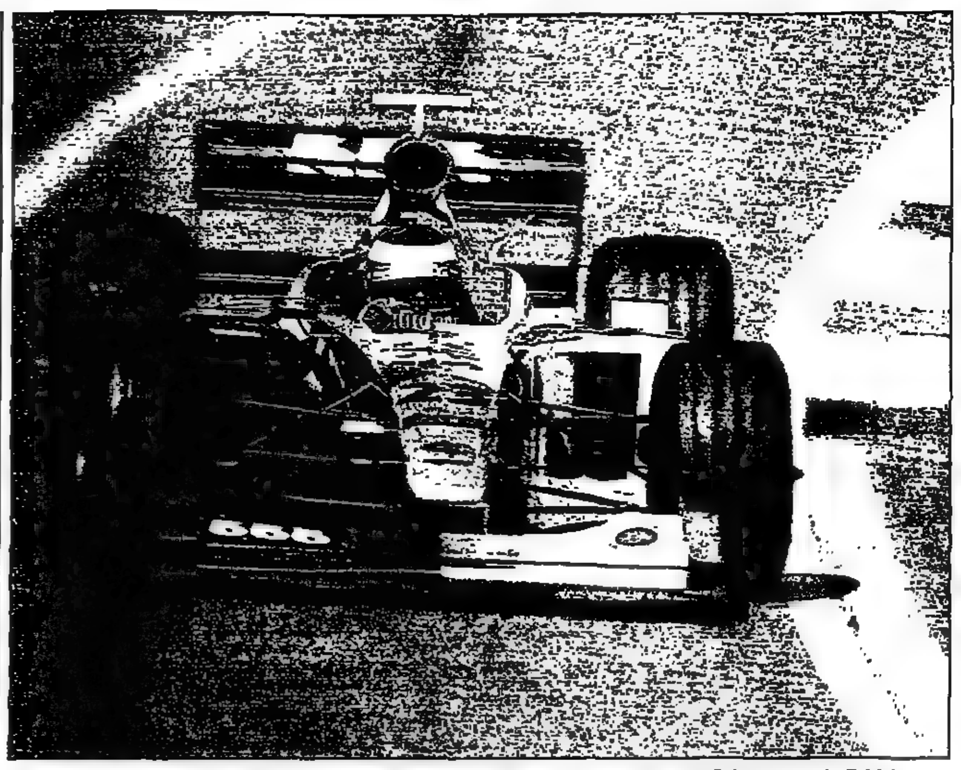
Last September, Ahold issued Fl 2.73bn in new equity as part of an offering, which also included convertible notes, to fund the purchase of Giant Food. It said at the time that its next takeover would not require a share issue.

Michael Meurs, chief financial officer, said that the Pathmark deal would not be completed until the fourth quarter, and a decision on raising capital would be made only after that. "I think that means we will have kept our promise," he said.

Ahold shares closed 2.8 per cent lower in Amsterdam at €32.55 ($35.42) although the group forecast an increase, excluding the effect of currency fluctuations, of 15-20 per cent in earnings per share for this year.

It said the acquisition would have no impact on earnings per share this year or next and be "substantially enhancing" after that. For the first three quarters of 1998, Pathmark had operating earnings of nearly $97m, indicating an operating margin of 3.5 per cent.

Mr van der Hoeven said the group continued to seek expansion in southern Europe, but bigger markets to the north had not brought acquisition candidates at the right price.



Ricardo Zonta, part of the British American Racing team, at the Australian Grand Prix last week. British American Tobacco claimed its underlying performance was positive despite a fall in profit. Picture: John Marsh

BAT still upbeat despite 16% decline in profits

By David Blackwell in London

British American Tobacco, which next week publishes details of its proposed £5.28bn ($8.5bn) takeover of Rothmans International, yesterday insisted that its underlying performance was positive in spite of a 16 per cent fall in profits.

The shares – which shot up to 625p on news of the takeover plan in January – fell 27½p to 545½p. Analysts suggested that investors were worried by the group's prediction that first-quarter operating profits would be down on the comparable 1997 period, and by the prospect of further litigation in the US.

Pre-tax profits for the 12 months to December 31, excluding the financial services arm that was demerged last autumn, fell from £875m to £738m. But the figures were clouded by exceptionals, including the payment of a total of £613m in US tobacco litigation settlements and the receipt of a £74m tax benefit in Brazil.

At the operating level, profits were down 3 per cent to £1.55bn on sales of £17.4bn (£17.8bn). But the group said that operating profits edged ahead by 1 per cent to £1.6bn at constant 1997 exchange rates after allowing for restructuring charges.

Martin Broughton, chairman, said it would have been all too easy for management to take its eye off the ball last year given the extent of corporate activity. But the improvement in operating profits at constant exchange rates was in line with its promise when the takeover of Rothmans was announced – "a resilient performance" in the difficult trading conditions that were continuing around the world.

These were most evident in the Asia-Pacific region, where operating profits tumbled 41 per cent to £182m.

Mr Broughton said the settlement of the state Medicaid claims against the industry in the US should have provided greater certainty for both shareholders and employees of the group. But further claims had shaken investor confidence.

Zurich adds a charge, Page 17

European markets to harmonise trading

By Vincent Boland in London

A single stock market to trade the shares of Europe's top 300 companies moved a step closer yesterday when the London and Frankfurt stock exchanges unveiled plans to harmonise the way shares are traded on their order books.

The exchanges have proposed "core market hours" of 9am to 5.30pm Central European time (08.00 to 16.30 GMT), an unlimited maximum order size on their trading books, and a 90-day limit on how long an unfulfilled limit order can remain on the books.

The proposals are due to come in to operation in the third quarter of this year. The move towards a "super stock exchange", which investors say they want after the arrival of the euro in January, were unveiled last July.

Separately, the London exchange has begun talking to users about closing and intraday auctions on Sets, its electronic order book, in addition to its opening auction. It has again raised the possibility of extending Sets to FTSE 250 stocks and a possible move to a shorter settlement cycle than the existing one, where trades are settled five days after being executed (T+5).

Frankfurt's Xetra electronic order book already holds auctions several times a day and settles at T+2. The exchanges are understood to be aiming for a uniform T+1 settlement cycle, considered the international norm.

On January 4, London and Frankfurt repatriated trading in each other's listed securities and offered members direct access to the two markets. Neither development was seen as dramatic since non-domestic trading volume was relatively small, while most large broking firms were already members of both the London and Frankfurt markets.

The changes to trading hours mean the Sets order book will open one hour earlier, while the Xetra order book will open and close 30 minutes later.

The change to maximum order sizes will not affect Frankfurt, which has no size limit on a trade, while London sets a limit of 20 times the "normal market size". The change to order duration will see London extend its limit order validity period from 31 days, while Frankfurt will cut its period from up to one year.

Telecom Italia considers new bid defence

By Hugo Dixon in London

Telecom Italia is considering enfranchising its non-voting savings shareholders as part of its defence against Olivetti's €53bn ($57bn) hostile bid. The move, which is likely to be discussed at today's board meeting, could make Telecom a much harder target for Olivetti to swallow. Olivetti's already highly leveraged bid is only pitched at Telecom's ordinary shareholders. The savings shares account for 29 per cent of Telecom's share capital. If they converted to ordinary shares, the cost of mounting a bid would increase by more than 40 per cent.

The savings shares trade at a discount of more than 40 per cent to the ordinary shares. The discount has widened sharply since Olivetti launched its bid. This is in part because of fears that savings investors will be forced to take non-voting stock in Tecnost, Olivetti's acquisition vehicle, if its bid succeeds.

The innovative scheme being considered by Telecom would probably involve issuing three conversion warrants to ordinary and savings shareholders. Anybody accumulating 10 of these warrants would be able to convert a savings share into an ordinary one. This would mean that savings investors wishing to convert would have to buy an extra seven warrants in the market from ordinary shareholders.

Telecom is thought to be attracted to this particular mechanism for enfranchising savings shares because it believes it would appeal to both classes of investor and help ward off Olivetti's bid. Ordinary investors would receive cash in exchange for sharing their voting privileges. And though savings shareholders would have to part with cash, the big discount they currently suffer would vanish.

Before Telecom can announce its scheme, it needs the approval of its board and Consob, the stock market regulatory body. This means an announcement is unlikely after today's board meeting.

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Telecom Italia defences, Page 16

BARRY RILEY

Merrill's brave new world

First the UK, now the world. In 1997 Mercury Asset Management formally published for the first time its views on investment strategy for UK pension fund clients.

Now, as Merrill Lynch Mercury Asset Management, it is expected by its new bosses to acquire global institutional business, in four base currencies anyway, including dollars, yen and euro, as well as sterling.

One response is the fatter *Investment Strategy & Structure, Global Edition*. It represents a sturdy defence of the large, multi-purpose investment house in an age of specialists.

Mercury now runs about $240bn worldwide, but its core UK pension fund business is under pressure because of poor results against benchmarks.

Can it extend the transition from running UK balanced pension funds to becoming a global multi-asset manager?

Some changes are obvious enough. For its global audience MAM has added more asset classes.

Hedge funds, for instance, are noted for their high returns but there are warnings about survivor bias in the performance figures and the hedge funds' lack of resources compared with those of "a large conventional manager".

Low correlation with an expensive stock market might appear a current advantage but investors might wind up buying "noisy cash".

The passage of time can also bring new wisdom. In 1997 there was enthusiasm about emerging market equities because of the sheer growth generated by these dynamic economies. But they are now seen as only "often" dynamic, with risks more evident than the rewards.

Mercury's basic concept remains one of defining "safe harbour" assets (often bonds) that match an institution's long-term liabilities but which usually give only low returns.

In practice, higher returning assets can be substituted as long as clients have a long enough time horizon to accept the short-term risks: a 20 per cent standard deviation of annual returns on equities, for instance.

The promotion of equities is less enthusiastic than in the previous edition, though. This may reflect the difference in the global client base, so much more bond-oriented than UK pension funds which typically still have equity exposures of more than 70 per cent.

There are also one or two hints that Mercury is worried about the level of future real returns on equities, although it quotes a consensus expectation of between 5 per cent and 7 per cent.

The competitive challenges to Mercury are clear from the document, which in itself could be seen as a response to the powerful consultants trying to grab control of the central investment decision-making processes and lock money managers away in tiny specialist boxes.

The "balanced versus specialist" debate, observes *MAM*, is really about the relative ability of investment consultants and investment managers to assemble a talented team.

A multi-asset manager, it adds, can add value outside narrow specialist briefs, and for many institutions can provide "a cost effective solution that does not expose the investor to undue risk".

As for the passive fund managers that are now soaking up business, Mercury points out that although index-tracking may be cheaper, it is not more prudent.

An active manager with an active risk of, say 2.5 per cent, may well add only a tiny increment – perhaps 0.2 per cent – to the overall market risk.

The risk/return ratio is therefore potentially high. But it has to admit that the average active manager will probably underperform in the long run.

Finally, those benchmarks. Historical returns provide only a very weak guide to future performance, MAM says, even if they are nevertheless widely used.

Concepts such as "tracking error" may be useful for checking manager styles but they often have little to do with client financial risk.

Yet in a tough world, a couple of bad years for performance can do serious damage, even to the biggest and most lavishly resourced fund management house.

LATIN AMERICA US INVESTORS SUPPORT SPANISH POWER GROUP'S ATTEMPT TO TAKE CONTROL OF CHILEAN ELECTRICITY DISTRIBUTOR

Endesa gets second bite at Enersis

By Tom Burns in Madrid

Endesa, Spain's leading power group, will have a second opportunity later this month to gain outright control of Enersis of Chile, its main investment target in Latin America, thanks to key support from US institutions that are shareholders of the Santiago-based electricity distributor.

An attempt by the Spanish group to change Enersis' bylaws in order to lift its stake in the utility from 32 per cent to 64 per cent was rejected two weeks ago when an extraordinary general meeting vote fell just one percentage point short of the 75 per cent majority required to change Enersis' statutes.

But in a surprise breakthrough that has enabled Endesa to renew its takeover strategy, Franklin Resources, a US fund that owns 1.5 per cent of Enersis' share capital in the form of American Depositary Receipts traded on the New York Stock Exchange, disclosed to regulatory authorities that its vote in favour of a bylaw change was not properly accounted for in last month's shareholder meeting.

Endesa's $1.45bn bid for a further 32 per cent of Enersis was backed by eight Chilean pension funds, known as AFPs, which control nearly 30 per cent of the utility between them. However, it apparently failed to gain sufficient support among US funds who hold Enersis ADRs.

The Enersis board yesterday approved a call, tabled by two of the AFPs representing 10 per cent of the utility's equity, for a vote on the issue again at a second shareholder meeting for March 29.

Endesa believes, on the basis of the Franklin Resources disclosure and on evidence of the voting intentions of other funds holding Enersis ADRs, that it now has sufficient backing to clinch a statutory change and implement its equity acquisition. Shareholder endorsement for Endesa taking a controlling stake will put Enersis at the centre of an ambitious investment drive by the Spanish group in Latin America. An immediate consequence will to block plans by Enersis to sell its 25 per cent stake in the biggest domestic generator, which is called Endesa Chile but which has no relationship with the Spanish group.

Spain's Endesa had vigorously opposed this disposal. The Spanish group plans to co-operate closely with Duke Energy, the US utilities group.

Renault set to buy Romanian carmaker Dacia

By Haig Simonian in Geneva

Renault should next month announce it has reached a milestone in its ambitions to become a more international vehicles group with the acquisition of Dacia, Romania's biggest carmaker.

The deal, expected to be closed on April 13, would give Renault control of the fourth largest vehicles group in central and eastern Europe after Volkswagen's Skoda subsidiary in the Czech Republic and the Fiat and Daewoo operations in Poland.

Dacia, which used to have a licence agreement with Renault, made more than 100,000 vehicles last year.

Louis Schweitzer, Renault's chairman, said he saw "no major outstanding issues" to prevent the takeover.

However, he was still waiting for the Romanian parliament to pass new laws granting big foreign investors significant tax and regulatory concessions.

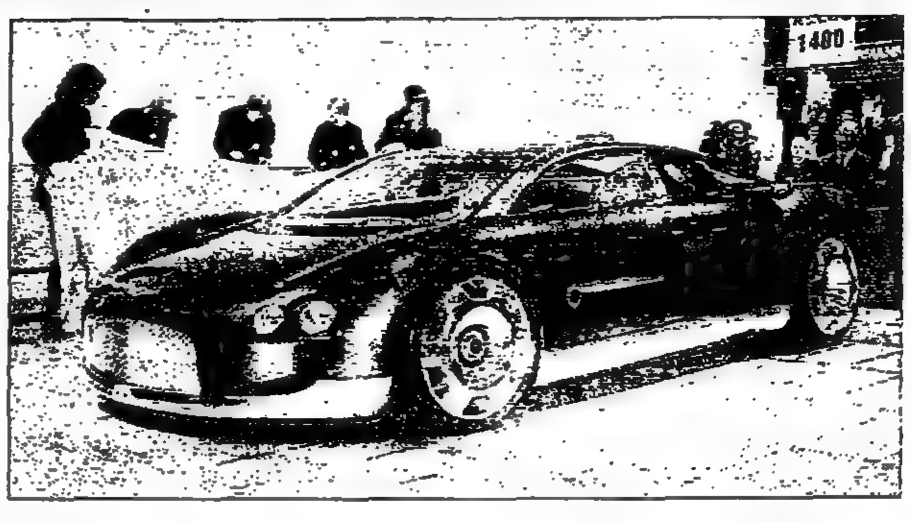
Mr Schweitzer has enthusiastically backed the idea of Renault developing a cheaper, second brand to spearhead expansion in new markets.

"The idea that high quality cars can only be manufactured in western Europe is dead," he said.

However, he would not say how much Renault would be paying for Dacia, which is modestly profitable. Analysts have speculated on a price of about $30m.

Mr Schweitzer confirmed that Renault remained interested in buying into Nissan Motor, the embattled Japanese carmaker, despite growing signs that DaimlerChrysler may be about to strike a deal.

He declined to give any indication of the state of Renault's negotiations, or whether he thought Renault could beat the much more established negotiating position held by the German-US group.



Sporting chance: Bentley unveils its 16-cylinder 'Hunaudieres' model at the motor show in Geneva AP

GM reveals expansion plan

By Haig Simonian in Geneva

General Motors yesterday announced ambitious plans to expand its European sales and market share while recognising demand and pricing in most countries would deteriorate this year.

Michael Burns, president of GM Europe, said he expected European car registrations to drop by between 500,000 and 800,000 compared with 1998.

However, GM was confident that Opel/Vauxhall and Saab, its European brands, would improve their shares through new models and improved quality and reliability.

Mr Burns admitted that Opel had suffered from image problems, caused partly by inconsistencies in GM's European strategy.

However, he said new models, such as the Zafira people carrier due in May and the latest Astra small family car, would attract new and previous owners.

■ Audi, the executive cars subsidiary of the Volkswagen group, confirmed the gloomier outlook among many carmakers for Europe this year.

However, it said it hoped new models would allow it to raise sales despite more difficult circumstances in many countries. Audi said its European market share in the first two months of this year had fallen slightly compared with 1998.

Fiat to issue €1bn loan

By Paul Betts in Milan

Fiat, the Italian motor manufacturer, yesterday said it would issue a €1bn ($918m) five-year loan soon to take advantage of favourable market conditions.

But Paolo Fresco, chairman, did not disclose how the group intended to use the new funds, except to say "we have many ways of using them".

The company's Fiat Finance and Trade arm has given the mandate for the loan to Mediobanca, Deutsche Bank and Morgan Stanley Dean Witter.

Mr Fresco, speaking at the company's centenary celebrations, would not discuss Fiat's merger.

Asked if it was interested in Volvo's truck operations or Scania – the Scandinavian truck manufacturer – Mr Fresco said "never say never".

Giovanni Agnelli, Fiat patriarch and honorary chairman, said that the group was "still too small" in the current global market and that it was "keeping its eyes open to all opportunities".

● Investor, the Swedish investment group, said yesterday it was still ready to discuss the future of Scania, the truck and bus maker, with potential buyers, sending Scania shares to a high of SKr215.5 a 2 per cent gain. The shares settled at SKr216.5.

Bayer, BASF show resilience

By Uta Harnischfeger in Frankfurt

Bayer and BASF, the German chemical and pharmaceutical makers, yesterday defied forecasts of disastrous 1998 earnings and proved relatively resilient against the negative effects from the crises in Asia and Latin America.

But despite satisfactory earnings, which may cause some revision of analysts' most pessimistic expectations for 1999, observers said it was too early to give the "all-clear" signal for Germany's chemicals industry.

BASF, based in Ludwigshafen, warned of more trouble to come. "The chemical industry and BASF are expecting 1999 to be a more difficult year, as a result of sustained pressure on prices," it said.

But despite falling 1998 sales – BASF sales were down 3.1 per cent to DM54.07bn from DM55.78bn (€27.6bn, $30.1bn from €28.5bn, $31bn) and Bayer's sales fell 0.2 per cent to DM54.9bn from DM55bn – both companies increased their profits. BASF's net profit rose 2.7 per cent to DM3.32bn from DM3.24bn, and Bayer's net profit was up 7.3 per cent at DM3.2bn from DM2.9bn in 1997. Both companies' sales were below analysts' expectations, while profits exceeded estimates.

Compared with Bayer, whose activities are almost evenly divided between chemicals and pharmaceuticals, BASF earns far more money from chemicals and related products. As a result it is more sensitive to pressure on selling prices as well as lower petrochemical margins, which have been falling along with oil prices.

"Both results are signs that the chemical industry as a whole was seen in too bad a light," said Jürgen Trojan, at Deutsche Genossenschaftszentrale in Frankfurt. Last week, the chemical employers association reported that 1998 industry sales fell 1.6 per cent to DM237.4bn, due particularly to lower exports. For the first three months of 1999 the association forecast further falls.

Bayer, based in Leverkusen, sent a clear signal to investors that it perceived its stock as undervalued. It said it would ask shareholders to approve a share buyback of up to 10 per cent of its shares. "It wants to [show] that its shares are too cheap and that buying its own stock is the best investment it can make," said Mr Trojan. Bayer plans to issue convertible bonds and bond warrants to pay for this.

BASF shares closed down 40 pfennigs at DM31.40, while Bayer closed down 20 pfennigs at DM32.60.

Roche chairman to retire

By William Hall in Zurich

Fritz Gerber, probably Switzerland's most successful business leader of his generation, plans to step down as chairman of Roche in 2001 after more than 20 years and hand over the chairmanship to Franz Humer, Roche's chief executive.

Mr Gerber's decision to announce his retirement ends months of speculation about the succession at Roche, which is still controlled by the same families that founded the business in 1896. Mr Gerber, 69, a lawyer, is credited with reviving the fortunes of Roche, which was struggling in the 1970s after failing to find a replacement for Valium, the world's first block-buster drug.

Roche yesterday announced a 3 per cent rise in 1998 net income, to SFr4.39bn ($3bn), and plans to increase its dividend by 5 per cent to SFr87 a share. Operating profit rose 21 per cent to SFr4.35bn on a 31 per cent rise in sales to SFr24.7bn. Growth in net income was held back by a 31 per cent drop in non-operating income to SFr1.08bn.

Mr Gerber, unlike most of Roche's previous chairmen, did not come from the pharmaceutical industry. He arrived at Roche in 1978 after 20 years at the Zurich Insurance company. He continued to combine the role of chairman of Zurich, as well as chairman and chief executive of Roche, until 1995.

Under Mr Gerber, Roche cut costs, cancelled ill-prepared diversification moves, and refocused its research effort.

Over the past decade, its earnings have grown at a compound annual growth rate of 25 per cent and it has built one of the best new drug pipelines in the industry. Analysts are particularly excited by the prospects of Xenical, Roche's new anti-obesity pill, and its anti-influenza drug.

Buffett warns on margins

By Tracy Corrigan in New York

Berkshire Hathaway, the investment vehicle run by the legendary investor Warren Buffett, yesterday reported continued growth last year, in its direct insurance operation Geico, but warned that margins will "almost certainly decrease" in 1999. However, investors and Buffett watchers keen to discover whether Mr Buffett has beaten the performance of Standard & Poor's 500 index for the 18th consecutive year will have to wait until Saturday, when the company's annual report will be posted on the internet.

Yesterday, Berkshire reported net earnings of $2.8bn in 1998, up from $1.9bn. The earnings were made up of $1.28bn in earnings from operations and $1.55bn in realised investment gains. But the year-end net asset value, which is the most closely watched indicator of the investment group's performance, will be disclosed in the annual report.

However, at the end of the third quarter, the net asset value was 2.6 per cent down on the year, while the S&P 500 was up 5 per cent, leading analysts to speculate that the company might end its strong run of beating the index. However, the December acquisition of General Re, the US insurance group which is now Berkshire's largest operating company, is expected to have boosted net asset value.

Geico's underwriting profit margin of 6.7 per cent last year was "well above" target, Berkshire said. General Re was included in Berkshire's earnings for only 10 days of last year.

In addition to the revelations of the annual report, shareholders can look forward to hearing Mr Buffett's words of wisdom when they gather for the ritualistic festivities of the annual meeting in Omaha, Nebraska, starting on May 1.

Merger doubts follow Lycos rift

By Richard Waters in New York

The rift between Lycos and its biggest shareholder widened yesterday, casting fresh doubt on the internet media company's plan to merge with Barry Diller's USA Networks.

The last significant internet "portal" company to remain independent of a larger media group, Lycos' shares jumped by 18 per cent on the news, reflecting a belief that it would be forced to renegotiate the merger or seek an alternative partner.

The rift with CMG Information Services – which owns 18.5 per cent of the internet company – came to the fore as David Wetherell, chief executive of CMGI, resigned from the Lycos board.

Mr Wetherell was a founding board member of Lycos when it was created in 1995. One of the most successful early investors in internet start-ups, he said he had quit to give himself freedom to pursue better terms for the merger.

The dispute over the value the deal placed on Lycos broke out almost as it was announced and has become a focal point for the debate over the high value Wall Street has put on internet stocks recently.

Mr Diller – one of the most successful US network television executives before branching into home shopping – has argued that most internet companies are overvalued. He said last week he retained "an abiding, if temporarily unfashionable, belief in arithmetic", and predicted that share prices would eventually fall.

However, while supporting the strategy behind the merger with USA Networks, Mr Wetherell has complained that it short-changes Lycos shareholders. As a board member he voted for the deal in February, but then withdrew his support as the stock market marked down the value of Lycos' stock.

Before yesterday's rebound, Lycos's shares had lost nearly 40 per cent of their value since the merger was announced. They were trading at 99\frac{1}{16}$ midday yesterday in New York, up 15\frac{5}{8}$ on the day but still below the $137 they reached in early February.

Telecom Italia bolsters defences

By Paul Betts in Milan

Telecom Italia yesterday was further sharpening its defensive strategy against Olivetti's €53bn ($57.7bn) hostile bid expected to be unveiled today after the boards of Telecom Italia and its 60 per cent cellular subsidiary Telecom Italia Mobile (TIM) meet.

TIM yesterday said its board would not only examine today its 1998 results but also call a shareholders meeting. Financial analysts in Milan said this suggested that Telecom Italia and TIM were likely to announce finally their merger plan as part of the former's new industrial strategy but also as a defence against its much smaller Italian telecommunications rival.

Carlo Camerana, a board member of Ifil, the Agnelli-Fiat family holding company and influential Telecom Italia shareholder, did not exclude the possibility of Telecom Italia acquiring directly TIM shares.

Franco Bernabe, Telecom Italia chief executive, had already announced his intention to merge Telecom Italia and TIM, said Mr Camerana. "If it then did not turn out to be a merger but the acquisition of TIM shares, why not," he added.

Other defensive actions under consideration were a possible share buy back, the conversion of Telecom Italia non-voting savings shares into ordinary voting shares, and the payment of a special dividend, banking sources said.

These defences, as well as Mr Bernabe's new industrial strategy, would be backed by the €20bn syndicated loan which three of Telecom Italia's banking advisers are seeking to put into place. The three advisers are Credit Suisse First Boston, J.P. Morgan and Italy's Imi.

TI was also understood to be seeking a preliminary credit assessment on its jumbo loan that would better the A- rating given to Olivetti by Standard & Poor's when it evaluated Olivetti's hostile bid.

Bankers yesterday expected Telecom Italia to command a slightly better rating than its rival. It had about €9bn of debt at the end of last June, while TIM was virtually debt free. A merger of Telecom Italia and TIM would enhance the rating, bankers said.

Innocenzo Cipolletta, director general of Confindustria, Italy's employers confederation, noted yesterday that indebtedness was also a means of accelerating and strengthening corporate restructuring.

Standard Life Investments, the fund management arm of Europe's largest mutual insurer, yesterday gave a further boost to Telecom Italia by saying Mr Bernabe now had the support of investors holding more than 20 per cent of Telecom Italia shares.

Leon de Jerez, head of European equities at Standard Life, said that 12 per cent of Telecom Italia investors were "definitely committed" adding "but we have more than 20 per cent who are firmly opposed to the bid".

The role of institutional investors is expected to be critical in the ultimate outcome of the takeover battle.

Telecom Italia also confirmed yesterday the resignation of Luigi Montella, chief executive of its engineering subsidiary Sirti. Mr Bernabe has already indicated that Sirti was one of the assets Telecom Italia planned to dispose of in its new business strategy.

In a separate development, OP Computers, which took over Olivetti's former loss-making personal computer business, yesterday asked to be placed in temporary receivership. Olivetti sold the company in 1997 to Piedmont International controlled by Edward Gottesmann, the UK-based American financier.

Olivetti holds about 20 per cent of Piedmont and said it was ready to cancel L88bn (€45.5m, $50m) of credits owed to it as well as provide financial support to OP Computers' management.

NEWS DIGEST

ALUMINIUM

Alcan shares fall after warning over low prices

Shares in Alcan fell 4 per cent yesterday after the Canadian aluminium producer warned that its first-quarter profits would be lower than expected due to prevailing low prices of primary metal, weak European markets for fabricated products and the recession in Brazil.

The company said its first-quarter net income would be 50-60 per cent below the 30 US cents per share – before special gains – recorded in the final quarter of 1998. Analysts had expected earnings of 31 US cents. Net income was US$117m, or 50 cents per share, in the first quarter of 1998.

The company was the second aluminium producer to issue a profit warning for the first quarter. Reynolds Aluminium said last week it would break even in the first three months of 1999, blaming low prices and the devaluation of Brazil's currency. Alcan said total shipments for fabricated products during the quarter were in line with the first quarter last year. Alcan shares were down C$1.70 at C$36 in morning trading yesterday. **Scott Morrison, Toronto**

FOOD

Heinz is 'on target'

HJ Heinz said yesterday it was on track to meet expectations for the year, despite an anticipated reduction in fourth-quarter operating income. The company reported third-quarter earnings per share of 60 cents before exceptional items, against 55 cents last time.

Heinz said earnings excluded a restructuring charge for and costs related to the consolidation of its Ore-Ida Foods and Weight Watchers Gourmet Foods units. Including these charges, third-quarter earnings were 33 cents (50 cents). Sales in the third quarter rose from $2.24bn to $2.28bn. **AFX, Pittsburgh**

ENERGY

Fortum falls on low prices

Fortum, one of the largest energy groups in the Nordic region, yesterday blamed lower-than-expected full-year profits on a sharp decline in electricity and crude oil prices. The Finnish company, created by last year's merger of Neste and Imatran Voima (IVO), saw its maiden 12-month profits fall to FM2.21bn (€371m, $403m) from FM4.9bn on reduced sales of FM50.5bn, compared with proforma turnover of FM60bn in 1997.

Heikki Marttinen, chief executive, warned that Fortum's results would be little improved this year if the market prices for oil and electricity remained at current levels. Th e newly-merged group still saw underlying operating profits fall from FM4.41bn to FM3.54bn. Mr Marttinen said falling oil prices and excess supplies of hydroelectric power had undermined the results. The figures were also held back by a FM202m charge for Fortum's liability for nuclear waste disposal.

Earnings per share fell from FM2.70 to FM1.62. A dividend of FM0.75 has been proposed. In Helsinki, Fortum shares fell 10 cents to €4.70. **Tim Burt, Stockholm**

ELECTRICAL MACHINERY

Strong yen hits Omron exports

Omron, the Japanese electrical machinery maker, yesterday issued a profit warning and announced a restructuring plan. Omron, following in the footsteps of Japan's electronic giants such as NEC and Toshiba, said weak global demand and a strong yen hurt exports of its control components. The company said it would cut 2,000 jobs to lower headcount from 18,800 to 16,800 by March 2002 and reduce the number of directors from 30 to less than 10 by July.

The group revised down sales forecast from Y570bn ($4.7bn) to Y550bn for the year ending March 31, 1999 against last year's sales of Y611.8bn. Omron lowered estimated pre-tax profit before exceptionals from Y14bn to Y4.5bn, down 89 per cent. The group said it expected to post a net profit of Y2bn against the earlier forecast of Y6.7bn and last year's profit of Y18.7bn profit. The stock closed down Y12 at Y1288. **Alexandra Nusbaum, Tokyo**

MOBILE PHONES

Orange to make Hungary bid

Orange Communications, the UK-based mobile phone operator in which Hutchison Whampoa has a large stake, is planning to extend its overseas presence with a bid for Hungary's third mobile licence. It has formed an alliance with Callahan Associates International of the US, that will be known as the Orange Hungaria Consortium, to consider the bid.

The company yesterday refused to indicate the likely value of any bid it might make. There could be substantial competition for the third license with British Telecommunications, Vodafone/Airtouch and Mannesmann of Germany among the likely contestants. Hungary was the first east European country to license a mobile network.
Alan Cane

BANKING

UBS sells Julius Baer stake

UBS has sold its 6.6 per cent voting stake in Julius Baer, Switzerland's biggest independent private bank, for SFr123m ($84m). The family-controlled bank has bought back the 139,973 registered shares from UBS which has owned the stake for many years.

UBS had 11 per cent of Julius Baer's registered shares and following the transaction the family shareholder pool will now control all the registered shares which represent over 50 per cent of the voting stock. UBS has been selling off its non-core interests since last year's merger with Swiss Bank Corporation. It raised SFr1.9bn from the sale of Banca della Svizzera Italiana and is expected to raise around SFr2.8bn from the sale of its 25 per cent stake in Swiss Life. **William Hall, Zurich**

CAR AND TRUCK MAKING

Saab talks confirmed

General Motors, the largest car and truck maker, yesterday confirmed that it intended to discuss the acquisition of the outstanding 50 per cent interest in Sweden's Saab Automobile this year. GM bought its existing half-share in Saab from Investor, the Swedish investment group controlled by the Wallenberg family, for $600m in 1989, and has management control.

Under a refinancing deal in 1996, GM received an option to acquire the other 50 per cent between July 1999 and January 2000. If the two parties do not reach agreement on this, Investor has the right to sell half its remaining stake in Saab to GM in the year 2000.

Confirmation that GM will consider raising its stake, given at the Geneva Motor Show, by Robert Hendry, the GM executive who heads Saab. **Nikki Tait, Chicago**

TRADEMARKS FINNISH RIVAL RAISIO TAKEN TO COURT OVER SIMILARITY OF PRODUCT NAMES

Unilever acts on cholesterol reducing spread

By John Willman, Consumer Industries Editor

The race to bring the first cholesterol-reducing spread to European consumers intensified yesterday when one of the two companies involved took the other to court for trademark infringement.

Unilever's Dutch subsidiary started summary proceedings in the district court in The Hague against the makers of Benecol, a spread already on sale in Finland, alleging the name was too similar to its own Becel brand.

The Anglo-Dutch consumer group, which hopes to launch its own "Flora pro-activ" cholesterol-busting spread in Europe within a few weeks, also says plans to market Benecol as healthy for hearts would damage the positioning of Becel.

Unilever has built Becel into the market leader in Belgium, Netherlands and Luxembourg over 35 years with a marketing campaign to associate it with heart health.

Benecol is produced by Raisio, the Finnish food and chemicals group, and marketed outside Finland by McNeil Consumer Healthcare, a subsidiary of Johnson & Johnson, the US group.

Both companies are racing to introduce their cholesterol-busting spreads in Europe and North America (where Unilever's will be called Take Control).

The two spreads both reduce "bad" cholesterol in the bloodstream, with studies showing the risk of coronary heart disease reduced by up to a fifth.

Benecol was launched in Finland in 1995, where it sells at six times the price of conventional spreads. It needs no approval to be sold in other EU countries, unlike Unilever's product which has to be approved under novel foods legislation introduced by Brussels after Benecol was launched.

The legal case comes as McNeil is close to launching Benecol in several EU markets and could delay its sale in the Benelux countries. Unilever's Flora pro-activ has been approved by the Dutch novel foods regulator, but has yet to clear the 60-day period during which regulators from other EU countries can object.

In the US, Unilever's Take Control is believed to be ahead of Benecol in being approved by the Food and Drug Administration. The two products are being investigated under a new procedure that requires them to demonstrate they are "generally recognised as safe" (GRAS).

Both companies were invited to submit to the GRAS procedure, which should take no more than 90 days to complete, at the end of last year. Approval under this procedure would not allow the spreads to be promoted as healthy without submitting to the much longer process for vetting health claims.

McNeil believes Benecol will find a ready market despite such restrictions, with widespread awareness among consumers and physicians of the benefits of reducing cholesterol.

Zurich adds $1bn charge to lift reserves

By William Hall in Zurich and Andrew Bolger in London

Zurich Financial Services, formed from last year's merger of Zurich Insurance and BAT Industries financial services arm, is adding an extra $1bn to its already announced $1.4bn restructuring charge, mainly to strengthen its reserves after the acquisition of Eagle Star's underperforming non-life insurance business.

Rolf Hüppi, ZFS's chief executive, said the need for the additional increase in reserves was the main reason the terms of the merger had been renegotiated and Zurich Insurance's stake had risen from 55 per cent to 57 per cent of the combined entity. However, at the time of the merger there had not been enough evidence to prove that BAT's Eagle Star insurance business was not adequately reserved.

Mr Hüppi said that the integration of BAT's financial services businesses would inevitably lead to additional job losses and office closures in the UK. To date, the group has announced 1,600 job losses, most of them in the UK. ZFS is also taking an additional $200m of restructuring charges and writedowns, which now total $800m.

However, Mr Hüppi insisted the need to boost reserves had not shaken his enthusiasm for the merger. The integration was "moving faster and proving to be more extensive" than planned, and he expected annual costs savings would increase from the already announced $400m to $500m by 2001.

Zurich's decision to boost its restructuring charge by 70 per cent led to a sharp drop in the shares of Allied Zurich and Zurich Allied, the two quoted holding companies of Zurich Financial Services (ZFS). Lewis Phillips of Fox-Pitt, Kelton in London, said the news was "disappointing" but it would not alter his estimate that the group would earn $2.8bn in 1999 and $3.3bn in 2000.

When the merger was announced more than a year ago Zurich disclosed a one-time $1.4bn restructuring charge for 1998. The figure was reconfirmed at last September's half year results and Zurich indicated that $700m-$800m, or more than half, would be used to increase underwriting reserves consistent with the existing standards of the Zurich Group, the Swiss partner.

However, the group now plans to double the $800m it had earmarked for the strengthening of non-life technical reserves to $1.6bn after a review of all non-life insurance liabilities and recent claims experience. It primarily reflects US and UK asbestos and pollution hazard exposures.

De Beers earnings halve to $617m

By Victor Mallet in Johannesburg

De Beers, the South African group that controls most of the world diamond market, yesterday announced a halving of its total net profit last year to $617m from $1.23bn in 1997, but said there had been tentative signs of improvement in the market since the start of this year.

Nicky Oppenheimer, chairman, described 1998 as "a very difficult year" in which sales by the De Beers-controlled Central Selling Organisation fell 28 per cent to $3.34bn.

The final combined dividend was 52.3 cents, and total dividends per linked unit fell 22 per cent in 1998 to 80.2 cents from 102.8 cents. The figures combine the results of Johannesburg-based De Beers Consolidated Mines and De Beers Centenary AG of Switzerland.

Mr Oppenheimer called it "a prudent dividend" given the harsh trading conditions, but said dividend cover had fallen anyway.

The results were at the lower end of analysts' predictions, and De Beers shares in Johannesburg fell R6 or 5.6 per cent to R100.

Diamond stocks were $4.82bn at December 31, up 8 per cent from the previous year, but Paddy Kell, finance director, said this and other figures had been affected by the consolidation of CSO companies. De Beers, part of the Anglo American conglomerate, has been simplifying its cross-holdings with other members of the group as Anglo prepares to move its headquarters and primary stock exchange listing to London in May.

The diamond market deteriorated in the second half of last year but the mood had improved in 1999 after a strong Christmas in the US, De Beers said. Stocks of rough diamonds in cutting centres had been run down as a result of De Beers' sales restriction over the past 18 months and because of reduced supplies from war-torn Angola and the Democratic Republic of Congo.

De Beers, however is maintaining a cautious stance and says it will be hard to boost overall sales significantly this year unless retail markets in Japan and south-east Asia improve.

Japan wakes up late to potential of the internet

Sony's surprise revamp is an attempt to scale down manufacturing and join the multimedia age, says Michiyo Nakamoto

Sony's surprise announcement is a wake-up call for Japan, which has let the explosive growth in internet-based computer services largely pass it by.

The plan Sony presented to reduce its manufacturing capacity and consolidate its electronics businesses to focus on networks aims to fundamentally change the way the group operates.

"It is a fundamental restructuring," emphasises Nobuyuki Idei, president and joint chief executive. "We have to restructure while we can, while we still have profits," he says.

There is a hint of urgency in Mr Idei's tone. That is not surprising, given that Sony is expected to report a loss in the fourth quarter for the first time in four years. In the year to March, consolidated pre-tax income is forecast to fall 21 per cent.

The company's electronics business, its biggest revenue earner, has suffered a plunge in profitability due to weak demand in key markets and falling prices.

But more importantly, Mr Idei is in a hurry to transform Sony into a company that is squarely at the forefront of the multimedia age.

In spite of its vast technological wealth, its software assets, superior marketing expertise and unparalleled brand recognition, Sony has not been a big beneficiary of the internet age and of networking businesses that are driving the US economy.

"Japan is way behind in the internet and the gap is widening," he warns. There are no businesses comparable to those in the US that are thriving as a result of the internet.

"People like Steve Case at AOL are like rock stars and they make Sony look like part of the establishment," he says somewhat forlornly.

If Sony is to break out of that establishment mould and join the new "stars" of the multimedia age, it cannot remain a conventional electronics manufacturer, content to simply manufacture hardware, no matter how advanced the technology.

Through his latest reorganisation, Mr Idei is trying to transform Sony into a company that is more in tune with the new age in which software and the distribution of contents provides the added value that is critical to the success of the hardware.

As such, manufacturing is no longer the critical activity it used to be for Japanese electronics manufacturers. If Mr Idei could have his way, he would get rid of more manufacturing facilities that stand in the way of success because they destroy, rather than create, value.

Norio Ohga, Sony chairman (left), and Nobuyuki Idei, announcing that the group will cut 17,000 jobs AP

"Sony should not do OEM business. We don't want to be a sub-contractor to computer manufacturers. There are areas (which we don't need), like the manufacturing of CD-ROM drives. It is difficult to quit but it will be done within one or two years," he says.

PlayStation, Sony's phenomenally successful video games machine, succeeded in part because Sony Computer Entertainment – the company that makes it – was able to use Sony's manufacturing facilities rather than build its own, Mr Idei points out.

The added value that Sony needs to offer will come from the synergies of hardware, software and distribution that are increasingly realised in network businesses. Yesterday's reorganisation lays the organisational foundations for that shift.

While the changes in Sony's market environment are forcing it to transform itself, the pressures the company faces to raise shareholder value are equally strong.

"About 40 per cent of Sony's shareholders are foreigners so we need to be concerned about shareholder value. If our share price is so low, we might be taken over," he warns.

But there are no business models Mr Idei can turn to. Much as he seems to admire AOL and Yahoo!, these companies "are virtual portable companies. They are contents aggregators, but we have manufacturing facilities so we are a little different. In that respect, Dell is somewhat more similar to what Sony sees as a model," he says.

Somewhat surprisingly, Mr Idei points out that Softbank comes closest to providing Sony with a business model. Softbank, founded by Masayoshi Son, its controversial president, has grown at a phenomenal pace through acquisitions of and investments in internet businesses. It is a shareholder in in Yahoo!.

"I am very close in thinking to Son. He always teases me that even though Sony is a big company, we are doing the same thing," Mr Idei laughs.

Like Softbank, which is almost like a holding company, the reorganisation announced yesterday will make Sony headquarters an "active investor", less involved in the day-to-day operations of each of the businesses and more focused on overseeing the group.

Like Mr Son, Mr Idei has clearly been converted to the pursuit of value in the opportunities opened up by the internet. The same can not be said of Japan as a whole. "There is so much potential in Japan. Unless action is taken quickly (to meet the challenge of the internet), it will be a tremendous waste," he says.

Sony's latest move is no doubt calculated to avoid that fate.

Gucci chief agrees to reopen LVMH talks

By Ian Bickerton in Amsterdam and Alice Rawsthorn in London

Domenico De Sole, president of Gucci, the embattled Italian fashion company, has agreed to reopen negotiations with LVMH, the French luxury goods group, in an attempt to resolve the legal battle between them.

However, Mr De Sole did not appear to have softened his attitude towards LVMH's proposals to forge a trading relationship with Gucci. "We have done a tremendous job of running this company and don't need any help from anyone," he said.

The two groups have been at loggerheads since LVMH, which owns the Givenchy and Louis Vuitton luxury brands, revealed earlier this year that it had stealthily acquired a 34.4 per cent stake in Gucci.

Bernard Arnault, LVMH's chairman, has since striven to persuade Gucci to collaborate with his group. He and Mr De Sole started discussing a standstill agreement on LVMH's rights as a shareholder last month, but failed to agree terms.

The conflict flared up when LVMH proposed appointing a nominee director to Gucci's board. Gucci, advised by Morgan Stanley, opposed the request and announced it was issuing 20m new shares (the same number as LVMH owns) to a newly created employee share option plan (Esop).

LVMH, advised by Goldman Sachs, asked a Dutch court (Gucci is quoted in Amsterdam) to declare the Esop unlawful. Last week, the court froze the voting rights on both the Esop shares and those of LVMH in a preliminary ruling pending a final hearing due to start on April 22.

It also ordered the two groups to try to resolve their differences by negotiation. LVMH immediately offered to reopen discussions in a letter to Mr De Sole, who accepted that offer in a letter sent yesterday.

So far, neither side shows any sign of moving from its original position. LVMH proposed recommencing negotiations on the basis of a standstill agreement, which was rejected by the Gucci board last month.

Nor is there any sign of compromise by Mr De Sole, who has maintained that LVMH should make a full bid for Gucci, which it would be obliged to do if the company was quoted in London or New York, rather than Amsterdam.

Branding buoys Andersen Consulting

By Jim Kelly

Andersen Consulting shrugged off any effects of its protracted separation proceedings with its sister firm Arthur Andersen to report a 25 per cent surge in global revenues in 1998 to $8.3bn.

Andersen Consulting, which became a stand-alone business in 1989, has recorded three years of growth of 25 per cent or more. It will see this success as vindication of its policy of separate development.

"In Europe we have enjoyed our most successful year yet with revenues exceeding $3bn for the first time," said Vernon Ellis, managing director for Europe, Middle East, Africa and India.

Andersen Consulting invested heavily in brand building in 1998 with the first redesign of its logotype and an aggressive sponsorship campaign of special events: "A powerful brand name is critical if Andersen Consulting is to differentiate itself from competitors in a converging market," said Mr Ellis.

Meanwhile the two sister firms are appearing before a Paris court of arbitration over their long-running turf war in which both have clashed in the consulting market. Observers expect the court to break their remaining ties – but at a price. Both firms have made substantial claims.

Andersen Consulting's results – at least comparable with leading competitors – will be put forward as evidence that the dispute has not sapped energies or blurred the firm's focus on providing high-level strategic advice for multi-national companies. Arthur Andersen's results have also remained robust.

Arthur Andersen's UK revenues touched £545m ($872m) – up 23 per cent – with more than £50m of last year's revenues coming from overseas placements of UK staff.

"We increased our revenues by nearly a quarter and recruited over 400 top graduates," said James Hall, UK managing partner.

The firm's revenues grew at 24 per cent in the Americas, 33 per cent in Europe, Middle East, Africa and India, and 1 per cent in Asia Pacific. It has 65,000 staff compared to 21,000 a decade ago.

Its largest industry practices grew strongly in 1998 – financial services jumping 33 per cent to $2.5bn, communications 30 per cent to $1.2bn, and energy up 41 per cent to $614m. Chemicals and health services, both jumped 42 per cent, the largest increases.

The firm invested $595m in internal training – up 38 per cent over the previous year – and $588m in research and development – up by 29 per cent.

PDVSA's oil dream evaporates

Raymond Colitt examines the critical situation for Venezuelan producers and workers

The mood at Petróleos de Venezuela, the state oil company, has been gloomy in recent weeks. The grand expansion plans to double its output and secure Venezuela's position as one of the world's top three oil producers have all but evaporated.

The collapse in global oil prices has triggered a series of draconian budget cuts that have plunged the economy into deep recession, while increased intervention by President Hugo Chávez's ministers threatens to downsize the company further.

Like other oil companies, PDVSA has seen its revenues plummet over the past 18 months as a result of declining oil prices. But in addition, PDVSA has had to bear the brunt of a 525,000 barrel per day production cut that Venezuela agreed last year with other leading oil producing countries in an attempt to stem dwindling prices. Crude oil exports could reap as little as $9.5bn this year, down from more than $18bn in 1997.

While the oil sector was roaring ahead at a 9.5 per cent growth rate in 1997, it contracted by 1 per cent last year and is expected to fall by another 1-2 per cent this year. Hundreds of service and supply companies, which had been gearing up to meet the needs of an oil sector – set to expand in the next decade – are now operating at 30 to 50 per cent of their capacity and have fired some 30,000 workers.

"The situation is critical and there appears no immediate hope for a recovery of the public oil sector," says Luis Eduardo Paul, head of Venezuela's association of petroleum companies.

PDVSA is having to cut spending by more than 36 per cent of its 1999 budget, already the smallest in 10 years. Even so, it still has an estimated financing requirement of $2.4bn.

Earlier this week, Roberto Mandini, PDVSA's new president, sought to placate employee concerns, saying there would be no immediate salary reductions. Yet he also announced austerity measures across the board and hinted at personnel reductions. "We will reduce or eliminate all aspects of our administration that do not directly generate results," he said.

Following a big corporate restructuring that began early in 1998 and merged subsidiaries along functional rather than regional lines, about 14,000 of the 42,000 employees are estimated to be surplus. According to internal company proposals, most are to be laid off over the next 10 years.

Yet analysts say it is not only falling oil prices that are behind the most recent cost-cutting measures – it is also the intent of the new government to shrink PDVSA so as to free resources for non-oil economic activities as well as increased social spending.

Mr Chávez has repeatedly accused PDVSA of being a state within a state and lashed out against allegedly lavish spending by its executives. He heightened fears of increased government intervention in PDVSA when he appointed two military officers to run the company's finance/personnel and planning departments. To help plug its growing budget deficit, the government is now said to be demanding increased dividend payments from PDVSA.

"It is being run down. The government is decapitalising the company," says Andrés Sosa Pietri, former PDVSA president. "If things continue at this rate, the company is going to lose its competitiveness."

Critics say excessive austerity at PDVSA will not only diminish its production capacity and hence its future fiscal contribution, but could also provoke a flight of human capital.

Yet the government's plans are already facing opposition from business and labour alike. They have warned it not to extend or deepen production cuts at the meeting of the Organisation of Petroleum Exporting Countries later this month. Unemployed oil workers in the port city of Barcelona went on hunger strike last week demanding jobs.

Many Venezuelans acknowledge the country's over-dependence on oil. Yet few see an immediate alternative to it. "The problem is that none of the government's proposed alternatives – tourism, agriculture, gas or petrochemicals – will produce significant returns in the short term," claims Mazhar Al-Shereidah, a critic of PDVSA's former expansion plans.

See Capital Markets
See Commodities

COMPANIES & FINANCE: UK

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BBA	Yr to Dec 31	1,211	(1,193)	164	(156.7)	23.7	(24.3)	6.15	May 21	5.6	8.8	8
BAT	Yr to Dec 31	17,376	(17,834)	738♠	(875♠)	22.17	(26.59)	16§	July 1	18大	24	26大大
Caird	Yr to Dec 31	21.8	(20.4)	3.48	(3.32♥)	18.33†	(20.03)	2.625	June 25	1.75	4.5	3
Cantab Pharms	Yr to Dec 31	3.95	(7.65)	7.23L	(3.25L)	17.6L	(8L)	-	-	-	-	-
Caradon	Yr to Dec 31	1,545	(1,717)	134.1L♠	(129♠)	39.1L‡	(13.9)	6.6	June 1	6.6	[illegible]	9.5
Coats Viyella	Yr to Dec 31	2,063	(2,359)	35.5♠	(33.3♠)	3.8L	(nil)	1.5	July 23	1	3	4.7
Country Gardens	Yr to Dec 31	54.1	(48.5)	4.32	(3.51)	10.85†	(13.46)	1.45	July 1	1.25	2.15	1.85
CrestaCare	Yr to Dec 31	58.1	(50.9)	5.08♠	(5.43)	2.1	(2.1)	0.73	May 4	0.69	1.06	1
Criterion Props	9 mths to Dec 31 ☆	2.57	(5.73)	0.77	(1.37)	7.26	(13.68)	5	Apr 21	3.5	5	6
DRS Data	Yr to Dec 31	6.78	(6.77)	0.026L	(0.828L)	0.13L	(2.02L)	-	-	-	-	nil
Expamet Intl	Yr to Dec 31	119.9	(111.4)	11.8	(9.74)	13.35	(10.41)	2.55	Apr 30	2.15	4.5	3.85
Fife	Yr to Dec 31	40.2	(39.3)	4.95L♠	(1.9)	29.78L	(6.85)	nil	-	2.5	1.2	3.7
SEO Interactive §	Yr to Dec 31	0.964	(3.06)	17.5L	(9.66L)	16.†	(10L)	-	-	-	-	-
Hampden	Yr to Jan 2	43.2	(45.2)	1♠	(2.03♠)	4.03	(8.81)	2.3	May 14	2.3	2.9	[illegible]
Huntingdon Life	Yr to Dec 31	52.6	(63.7)	25.4♠	(7.16♠)	14.4L†	(4.7L)	nil	-	nil	nil	nil
Hurlingham Props	6 mths to Nov 30	58	(52.6)	5.4L♥	(13.3)	0.35L	(0.68)	-	-	-	-	1
Indep't Insurance	Yr to Dec 31 ★	457.5☐	(552.2☐)	91.8	(82.8)	26.9	(25.7)	2.5	-	2.05	4	3.3
Kerry §	Yr to Dec 31	1,733	(1,344)	93.9	(76.5)	43.7†	(39.4)	3.5	Apr 1	2.94	5.18	4.4
Lambert Howarth	Yr to Dec 31	104.8	(109.5)	4.07♠	(4.59♠)	18.6	(21)	9.25	May 14	5.75	12.5	8.5
Metal Bulletin	Yr to Dec 31	28.3	(24.6)	5.6	(5.88)	39.8	(39.7)	18.5	Apr 30	16.3	26	23
Norish §	Yr to Dec 31	9.95	(9.68)	2.34	(2.87♥)	19.8	(25.1)	3	Mar 31	3	4	4
Partco	Yr to Dec 31	435.6	(385)	21.7♠	(21.3)	21.2†	(21.1)	7	May 28	6.1	10	8.7
Pennant Intl ◆	Yr to Dec 31	4.97	(4.36)	0.641	(0.653)	7.41	(7.95)	2.4	Apr 17	-	3.6	-
Pochin's	6 mths to Nov 30 ★	19.8	(31.6)	1.33	(1.42)	4.4	(4.8)	1	Apr 19	1	-	3.5
Polypipe	6 mths to Dec 31	122.2	(119.6)	12.2	(12)	4.99	(4.8)	1.2	Apr 23	1.03	-	3.93
Ramsden's (Harry)	Yr to Sept 27	10.1	(6.83)	1.97L♠	(1.52♥)	21.2L	(12.1)	nil	-	4	1	5
Readymix €	Yr to Dec 31	157.8	(142.3)	18.4	(16)	14.48	(12.43)	2.86	Mar 30	2.38	3.95	3.37
Ryland	Yr to Dec 31 ★	611.4	(499.6)	5.38♠	(6.08♥)	12.4	(15.2)	3.2	May 5	2.9	4.7	4.4
Senior Engineering	Yr to Dec 31	509.6	(479.3)	49.5	(43.1)	11.61	(10.48)	2.92	June 3	2.64	4.69	4.24
Waterford W'wood §	Yr to Dec 31	575.3	(417.2)	14.9♠	(12.2♠)	1.74	(0.88)	1.4	Mar 31	1.25	1.8	1.6
Wilson Connolly	Yr to Dec 31	380.8	(312)	44.5	(38)	15.5	(13.1)	4.45	June 1	4	6.05	5.5‡‡
Wyndham Motor	Yr to Dec 31	102.3	(91.5)	1.21	(1.53)	24.33	(33.08)	6	Apr 7	5	8.5	8
Yule Catto	Yr to Dec 31 ★	532.3	(367.2)	41.3♠	(38.1)	17.3	(24.4)	6.6	July 5	6	11	10

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Conv Inc	6 mths to Dec 31	107.59	(111.18)	1.63	(0.873)	4.5	(3.84)	3.2	Apr 1	3.2	-	7‡‡
Edinburgh Income	9 mths to Jan 31 ‡	66.5	(78.2)	0.318	(0.534)	2.12	(3.56)	0.9大大	Apr 2	0.9	-	3.6
Edinburgh US Track.	Yr to Jan 31	834.15	(486.64)	3.62	(4.05)	4.34	(4.86)	2.85	May 25	2.85	4.35	4.35
[illegible] Pacific	Yr to Dec 31	60.9	(68.1)	2.55	(1.36)	1.239	(0.689)	0.25	Apr 16	0.25	0.25‡‡	0.25‡‡
Highcroft	Yr to Dec 31 ★	507	(451)	0.985♥	(0.958♥)	23.7	(21.1)	4.5	June 4	4.25	7.1	6.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♥After exceptional charge. ♠After exceptional credit. §Special of 4p also declared. 大Foreign income dividend. 大大Includes FID element. †On increased capital. ‡On reduced capital. ☆Comparatives for 12 months to March 31 1998. $US currency. ★Comparatives restated. ☐Gross premiums written. ◆Aim stock. §Irish currency. €Euros. ‡‡Excludes special. #Comparatives for 12 months to April 30 1998.

BUILDING MATERIALS GROUP £134M IN LOSS AFTER EXCEPTIONALS

Caradon starts cost cutting

By Charles Pretzlik

Caradon, the building products group, yesterday accelerated its rehabilitation with investors with plans to increase sales and protect profits by cutting both prices and costs.

Jürgen Hintz, who took over as chief executive last May, said: "Too many Caradon businesses have been uncompetitive, losing market share and volume year after year. We aim to rebuild our market shares by offering superior value to customers, underpinned by cost leadership."

Caradon's shares have sharply underperformed the sector since their peak of 439p five years ago, since when they have fallen steadily. So far this year, though, they have outperformed the market by more than 40 per cent as the group made progress with disposals.

Christopher Grant, an analyst at BT Alex Brown, said Mr Hintz had "done a very good job. Caradon has had a woeful track record in terms of shareholder value since 1993 – it's been destroying value. Hintz is beginning to put things right but it will be long drawn out process. In his initial year he's done all that can be expected of him".

Caradon yesterday reported a £134.1m pre-tax loss for 1998 against profits of £129m. The loss was after £249.2m of exceptional charges mostly related to disposals where previously written-off goodwill had to be written back. Turnover fell 4 per cent to £1.29bn.

The shares fell 9p to 149p.

Since September, the group has sold six businesses for £80m, including its Everest windows operation, and it is in talks to sell another four.

The disposal programme will leave Caradon with 24 businesses in four divisions compared with more than 60 in seven divisions in 1994.

Operating profit fell 7 per cent to £119.3m. The European plumbing and electrical businesses suffered from strong competition, the loss of a main customer and the Asian economic crisis.

Profits from plumbing fell a third to £32.1m and profits from the electrical division fell 4 per cent to £24.3m.

Mr Hintz said these divisions had suffered from unrealistically high pricing. Margins would suffer in the short term but they would be restored by heavy cost cutting.

Rhodia may bid for Albright

By Lucy Smy in London and Tracy Corrigan in New York

Rhodia, the French chemicals group, yesterday confirmed market suspicions that it was interested in bidding for Albright & Wilson, just a day after Albemarle, a US rival, *bid £408m ($656m)* for the UK chemicals company.

Shares in Albright rose 8 per cent to 140p on the expectation that any offer would have to be at least 10p higher than Albemarle's offer of 130p a share. Rhodia said it had been in preliminary discussions with Albright.

Analysts said a merger with Rhodia, which is 68 per cent owned by Rhône Poulenc, the *life sciences* company, would have more obvious product overlaps and potential for cost savings than with Albemarle.

Albright's main products are surfactants, used in detergents, and phosphate-based chemicals. Rhodia also specialises in these, while Albemarle mostly makes bromide-based chemicals.

Most analysts said they did not expect Rhodia to make an *offer before* it was clear whether Albright had succeeded in purchasing the phosphates arm of Solutia of the US. Albright has made a joint bid with PCS, its US partner, for the Solutia businesses which are valued at more than $200m.

Rhodia said it was especially interested in Albright's phosphates business, but declined to comment on whether it was also looking at *Solutia's* phosphates arm.

Albright is advised by Lazard Brothers.

NEWS DIGEST

ENGINEERING

BBA moves towards high-margin products

BBA Group, the engineer, yesterday unveiled plans to increase its revenues from services and high technology materials. Roberto Quarta, chief executive, suggested the group would shift its emphasis away from its automotive division, which is seen as vulnerable to a downturn in world car markets.

Mr Quarta's plans reflect industry worries that engineering groups will find it hard to prosper if they remain suppliers of low-margin commodity products. Last week Cookson, the industrial materials group, said it would focus more on engineering services in an attempt to overcome increased competition.

Mr Quarta said BBA would concentrate on developing two divisions that together account for almost 80 per cent of group sales: aviation, which offers a range of services for corporate jets; and nonwovens, which makes absorbent materials used in products from timber cladding to nappies. "The key for BBA is to become a provider of value-added solutions for our customers," he said.

He said services accounted for 36 per cent of sales, against 15 per cent in 1993. Over the same period the group had increased the proportion of turnover derived from consumer items from 10 to 36 per cent.

His comments came as BBA revealed pre-tax profits for 1998 ahead from £156.7m to £164m on sales up 1.5 per cent at £1.21bn. **Michael Peel**

Senior hints at non-core sell-off

Senior Engineering Group yesterday hinted that it might sell one of its divisions as part of its plan to become a specialist manufacturer of flexible metal tubes and bellows.

The group said it was focusing on developing its core flexonics businesses, which makes materials capable of withstanding extremes of temperature and acidity. "It follows that anything else is non-core", said Andrew Parrish, chief executive.

His comments raised the prospect that Senior might sell its engineered products and services division, which accounts for 29 per cent of group sales. Mr Parrish decribed the division as "very much the rump of the old Senior". The engineered products division is growing more slowly and achieving lower profit margins than the group's other businesses. Engineered products made operating profits of £7.4m last year on sales of £151m.

Senior yesterday unveiled 1998 pre-tax profits £6.4m higher at £49.5m, after a goodwill write-off of £1.1m. Sales rose 6.3 per cent to £509.6m. **Michael Peel**

TRW extends LucasVarity bid

TRW, the US steering systems and spacecraft equipment manufacturer, has extended to March 25 the acceptance period for its £4bn cash offer for LucasVarity, the UK-listed automotive components supplier. TRW said it had control of 44.8 per cent of LucasVarity after receiving acceptances representing 37.41 per cent of the group.

HOUSEHOLD GOODS

Japan hits Waterford Wedgwood

Waterford Wedgwood, the Irish luxury goods company chaired by Tony O'Reilly, yesterday said sluggish demand from Japanese tourists had undermined an otherwise "creditable" annual performance.

Richard Barnes, finance director, said: "The slowdown in Japan has hit our domestic business there. Japanese tourists have also cut down their travel to other Asian markets, as well as to Europe and the US."

The company said sales in its Wedgwood china and ceramics division had fallen 5 per cent and operating profits 35 per cent as the Asian crisis continued and the strong pound hit exports to continental Europe. However, strong demand in the US helped lift sales in the Waterford crystal business by more than 15 per cent and operating profits by 40 per cent. In 1998 pre-tax profits rose 22 per cent to I£14.9m ($20.4m). Part of this increase was the result of a reduced restructuring charge of I£24.6m, down from last year's I£27.8m. Group turnover grew 38 per cent to I£575.3m (I£417.2m), of which more than one-fifth came from Rosenthal, the German porcelain business acquired last year. **Dan Bilefsky**

Coats rejects merger talk

Coats Viyella, the textiles group, has rejected speculation that it might participate in further consolidation in the industry. Michael Ost, chief executive, said: "We have looked in some depth [at the benefits of a deal with another UK clothing manufacturer] and cannot see how it would create shareholder value."

The comments accompanied an 18 per cent fall in 1998 operating profits from continuing operations to £117m. Profits were hardest hit in the UK, where Jaeger, the fashion retail brand, and the home furnishings side were affected by the retail slowdown and price pressures.

EURO PRICES

EQUITIES

German jobs figures encourage bourses

EUROPEAN OVERVIEW

By Florian Gimbel

European shares moved higher yesterday encouraged by lower-than-expected German unemployment as well as record French consumer confidence.

All eyes were on the US as markets expected the recent rally on Wall Street to come to an end.

US shares opened generally weaker, but rebounded later on higher productivity figures.

In Europe, however, the markets faced lacklustre sentiment and dwindling liquidity for most of the trading day, as some investors diverted funds to newly upbeat Asian markets.

But most analysts agreed that the drain of European capital was to cause only limited damage to the eurozone.

"The total holdings of Japanese and other Asian stocks by European investors only amounts to \$150bn, compared with a European-wide market capitalisation of \$8,000bn," said Richard Davidson at Morgan Stanley Dean Witter.

Shares in leisure and entertainment companies put in some of the strongest performances yesterday. They were responding to continuously high consumer spending.

Telecoms also ended higher on the back of ongoing merger talk in Italian telecom sector.

Shares in Telecom Italia Mobile closed 4.58 per cent higher at €6.39, due to speculation over a possible merger with Telecom Italia.

On a more general note, inflows to equity mutual funds, which invest in eurozone stocks, has been disappointing, according to a recent report by Salomon Smith Barney.

December's inflows were at a low of \$2bn, compared with a \$6.7bn monthly average in 1998.

January's figure was weaker than expected at \$3.6bn, with the outlook for February's inflows being equally subdued.

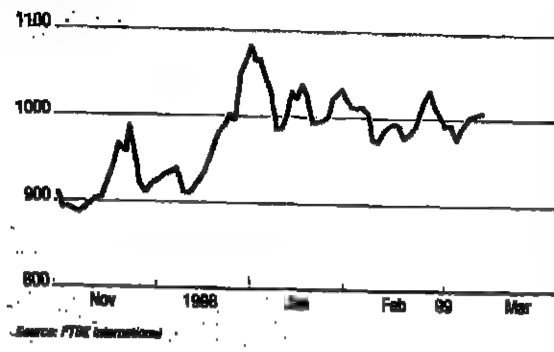
The report highlighted a possible supply imbalance in this year's second quarter, as \$34bn new issues were expected to meet with little demand.

The FTSE Eurotop 300 index advanced 6.84 points to 1,239.35, while the FTSE Eurotop 100 increased 23.70 to 2,859.44.

The FTSE Ebloc index of leading stocks in the eurozone settled 1.95 points higher at 1,009.77.

FTSE Ebloc 100

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 09 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1239.35	+0.55	+6.84	2.16	3.14	1279.44
FTSE Eurotop 100	2859.44	+0.84	+23.70	2.14	8.67	1028.19
FTSE Ebloc 100	1009.77	+0.19	[illegible]	2.00	0.74	1025.75
FTSE EuroMid	[illegible]	+0.27	[illegible]	2.78	2.36	1253.07

OTHER INDICES

For real-time FTSE Eurotop 300 index quotes call FT Cityline on: 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

BONDS

INTEREST RATE SWAPS

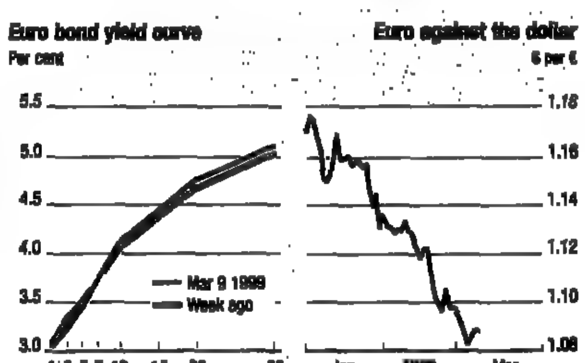
Mar 09	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid
1 year	3.11	3.14	5.42	5.46	1.80
2 year	3.18	3.22	[illegible]	5.46	1.80
3 year	3.34	3.38	5.46	5.50	2.05
4 year	3.54	[illegible]	5.46	5.50	2.22

EURO-ZONE BONDS

Gabert	04/07	10.125	B+	115.000	8.22	-0.01	-2.14	+2.34
Colt Telecom	11/07	[illegible]	n/a	[illegible]	7.87	+0.05	+0.03	+3.99
Impress Metal	05/07	9.875	B	110.750	7.43	[illegible]	-1.65	+3.55
Remy Cointreau	07/05	10.000	B+	97.500	10.54	+0.11	-0.71	+8.93

Standard & Poor's ratings. Source: Interactive Data/FT Information.

Euro bond yield curve — Euro against the dollar



Source: Interactive Data/FT Information

PDVSA issue faces difficult market

By Raymond Colitt in Caracas

Petróleos de Venezuela (PDVSA), the state oil company that is seeking to raise $1bn in the international capital markets over the next few weeks, is expected to face tough market conditions due to Venezuela's sovereign risk and the depressed oil price.

"I'm sure PDVSA can place the paper but it will be at a higher cost than it did last year," says Franklin Santarelli, senior analyst with Duff and Phelps, the credit rating firm.

PDVSA's new board of directors, appointed at the beginning of last month, approved a $1bn bond issue, but officials say the amount is only half its total borrowing requirements, and are hoping a second issue will be scheduled if the first is well received by the market.

PDV Finance, an offshore investment vehicle, last May issued a total of $1.8bn in five tranches priced between 88 and 165 basis points over US Treasuries with maturities between five and 30 years. These were backed by PDVSA's expected payments from clients.

DCR last December downgraded PDV Finance's notes from A to A-, after also downgrading the country's long-term foreign currency debt rating from BB- to B+.

It argued that "the structure of the PDVSA Finance transaction mitigated but did not completely eliminate sovereign risk."

As the country faced a severe shortage of foreign currency, the likelihood of sovereign interference with these types of transactions would increase, it said.

Greenspan comments buoy Treasuries

BENCHMARK BONDS

By Arkady Ostrovsky and Khozem Merchant in London and John Labate in New York

Soothing comments made by Alan Greenspan, chairman of the Federal Reserve, prompted the US bond market to edge higher yesterday, as European bond markets continued to sell off.

Mr Greenspan said that despite strong US economic growth and low unemployment "there have been no obvious signs of emerging inflationary pressures".

Traders interpreted his words as a sign that the Fed might be less keen to cut interest rates than feared.

Mr Greenspan also said productivity gains were expected to continue. His comments came as new figures on productivity were released, showing that in the fourth quarter of 1998 productivity was revised to a 4.6 per cent rise from the previously reported 3.7 per cent.

The tight labour market could prompt companies to spend more on technology and less on labour, analysts said.

US Treasuries edged higher at midday. The 30-year benchmark bond had gained $\frac{3}{32}$ to $95\frac{11}{32}$ in early afternoon trading, sending the yield to 5.582 per cent. The 10-year note was up $\frac{5}{32}$ at $98\frac{3}{8}$, yielding 5.227 per cent and the two-year note was $\frac{1}{32}$ higher at $99\frac{19}{32}$, yielding 5.084 per cent.

European bond markets however ended lower yesterday, lacking encouragement from the European Central Bank. The spread between German bunds and US Treasuries narrowed to 115 basis points during the day, having peaked at 140 basis points few weeks ago.

The UK gilt market weakened in response to the Budget, which, analysts say, reduces chances of an interest rate cut.

Kevin Adams of Barclays Capital, said: "Gordon Brown spent most of the budget giving away money, which means consumer spending is likely to be resilient and business confidence could go up." He said the monetary policy committee would find it harder to cut rates in this environment.

This and the reduction in borrowing requirement which could translate into the reduction of debt issuance prompted investors to sell off at the short and long end of the gilt market. The benchmark 10-year gilt June future fell 0.74 to 115.63.

Japanese government bonds continued to weaken after their recent rally, evidence of nervousness ahead of a crucial Bank of Japan's monetary policy committee meeting on Friday.

Ten-year JGB futures weakened 51 basis points in Tokyo and marginally less in London.

Rate warning sparks rise in JGB yields

By Gillian Tett and Naoko Nakamae in Tokyo

Yields on long-term Japanese government bonds yesterday rose sharply after a warning from the Bank of Japan governor that he expected long-term interest rates to rise again soon.

Government suggestions of an imminent tightening of bond trading regulations also damped the bond market, and the yield on the benchmark 10-year government bond climbed 8 basis points to 1.7 per cent.

Comments made in parliament by Masaru Hayami, Bank of Japan governor, were interpreted as a sign that he did not expect the Bank to take further radical steps to ease monetary policy when its policy board meets on Friday.

However, economists pointed out that the Bank was still holding intensive internal discussions about policy ahead of Friday's meeting. And although Mr Hayami has ruled out any direct underwriting of JGBs, some officials expect that some less drastic measures may still be adopted in the coming weeks.

In particular, Friday's meeting is likely to consider introducing interest rate targets for three-month money or relaxing rules on bank reserve requirements.

Yoshito Sakakibara, economist at Goldman Sachs, said: "I think Mr Hayami is signalling that the Bank remains against underwriting JGBs."

But the recent surge in long-term interest rates has been welcomed by some life insurance companies, which as a sector, control some Y190,000bn of assets.

"We have been increasing our duration in Japanese bonds since long-term yields have gone up," said Takashi Kawashima, manager in the investment planning department at Dai-ichi Mutual, Japan's second largest life insurer.

"As a life insurance company with fixed liabilities, higher long-term interest rates are beneficial to us in the medium- to long-term. As a result, we have been buying more 10-year government bonds. And we will to continue to do so, if long-term rates continue to trend upwards."

Bond yields were yesterday also dented as traders warned that the Japan Securities Dealers Association, the industry watchdog, appeared poised to reimpose a rule requiring all trades to be conducted within 2 per cent of the market price.

The JSDA, which abolished the rule in December, said that nothing had been decided. However, in recent weeks the JSDA has come under pressure to reimpose the rule since there had been a dramatic increase in the practice of "price adjustment", or conducting bond trades at artificial prices to conceal losses.

This prompted foreign criticism that the JSDA was in effect encouraging trading practices that did not meet global compliance standards. And senior Finance Ministry officials have consequently been pressing the JSDA to reimpose some form of controls to boost Tokyo's reputation as a global financial centre.

Tepco launches €750m five-year bond

NEW ISSUES

By Khozem Merchant

Tokyo Electric Power, the world's largest privately owned electric power company, yesterday became the first Japanese corporate to launch a euro-denominated bond. Tepco's offering continues the recent rehabilitation of Japanese credits.

Investor concerns over the Japanese economy, which is in recession, have largely shut out domestic corporates from the debt markets. But sentiment towards Japan has improved, with the government tackling the troubled banking sector and addressing an anaemic economy.

In the past two weeks, several government agencies, such as Japan Export Import Bank, have successfully tapped the debt market.

The five-year €750m issue, which was priced to yield 56 basis points over the 2004 OAT and tightened by 3 basis points, is the largest ever issue by Tepco in a European currency.

Paribas, joint lead manager with Industrial Bank of Japan and WestLB, said the borrower was able to make cost savings over comparable domestically generated funding.

The Asian theme continued with Hutchison Ports issuing a 15-year £325m bond, just a week after a successful debut euro-denominated issue by its parent, the Hong Kong-based conglomerate Hutchison Whampoa.

Hutchison Ports' key asset is the port of Felixstowe, the largest container port in the UK and the fourth largest in Europe. Its ports, which include Thamesport and Harwich, handle some 46 per cent of the UK's container traffic.

Bankers said Hutchison Ports opted for a sterling issue – instead of a euro issue like its parent – because it was a UK-based business with sterling funding requirements.

The borrower was also keen to issue a longer-dated bond and accordingly provoked strong responses from its target investors – pension funds and insurance houses.

The bond was priced to yield 195 basis points over the relevant gilt, tightening from a level of 200 basis points indicated during a roadshow in Scotland and London. The bond narrowed by 3 basis points.

Ford, the US carmaker launched its debut euro bond, with a €1bn offering maturing over 5½ years.

Bankers say the Ford issue, which is expected to be priced today at 47-48 basis points over the French BTAN, could signal a small rally in euro-denominated issuance by US borrowers.

For US borrowers, the euro market has been relatively expensive to access.

But the situation has eased in recent days as euro swap spreads – the rate at which fixed rate money is swapped for floating rate money – have widened while dollar spreads have remained stable, correcting an imbalance that has dissuaded US borrowers from issuing in euros.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
KfW International Finance	100	zero	98.073	Mar 2000	0.05		Nomura International
EUROS							
Ford Motor Credit Co(f)	1bn	(a)‡	(a)R	Jul 2004	0.30R	(a)	CSFB/Lehman/Merrill
Lander NS Six	750	4.25	99.402	Mar 2009	0.325	+27	ABN/Commz/DG/WestLB
Tokyo Electric Power Co(f)	750	4.00	99.867R	Mar 2004	0.30R	+56	BNP/Paribas/WestLB
Globaldrive, Sr B, Snr(b)	490.75	(b1)	100.00	Jun 2006	0.20		Deutsche Bank
Parmalat Finance Corp	250	5.50	98.31R	Mar 2009	0.50R	+168	Merrill Lynch
Suncorp Metway‡	200	(c)	99.971R	Nov 2001	0.125R		Chase/Warburg DR
Pirelli and C Lux(d)	150	5.125	99.55R	Apr 2009	0.45R		Medio/Rasfer/UniCredito
Intesa Preferred Co(g)	125	6.40(g)	100.00	undated	0.60R		Goldman Sachs
HypoVereinsbank(h)	100	4.625	97.70R	Feb 2009	0.30R	+89	BGL
Aab-Cger	100	7.375	102.00	Apr 2005	2.00		Aab-Cger
Rep of the Philippines(i)	50	8.00(e)	100.575R	Sep 2004	0.55R	+225	Deutsche/JPM/Warburg
STERLING							
Hutchison Ports plc	325	6.75(e)	98.09R	Dec 2015	0.825R	+195(6%-15)	HSBC Markets
Abbey Natl Tsy Services(m)	50	5.375	101.568	Dec 2009	2.00		RBC DS Global Markets
SWISS FRANCS							
BNG	150	2.00	101.20	Dec 2003	2.00		Warburg Dillon Read

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. [illegible]

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 9	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.2670	5.12	+0.02	+0.05	+0.27	-0.06
	05/08	6.750	122.0894	5.69	+0.05	+0.09	+0.42	-0.80
Austria	03/01	5.250	103.9200	3.19	+0.04	-0.13	+0.13	-0.84
	01/08	5.000	105.4700	4.24	+0.04	+0.02	+0.23	-0.78
Belgium	03/01	5.000	103.4200	3.23	+0.06	-0.05	+0.18	-0.79
	03/09	3.750	95.3800	4.33	+0.06	+0.04	+0.28	-0.86
Canada	12/00	5.000	99.6100	5.24	+0.01	-0.05	+0.34	+0.24
	06/08	6.000	104.8900	5.32	-0.01	-0.03	+0.25	-0.19
Denmark	11/00	9.000	106.7100	3.50	-0.04	-0.11	-0.02	-0.71
	11/09	6.000	112.1700	4.83	+0.04	-	+0.38	-0.71
Finland	06/00	4.000	101.1340	3.06	-	-0.09	+0.05	-0.80
	04/09	5.000	105.1370	4.35	+0.06	+0.02	+0.34	-0.60
France	07/00	4.000	101.1900	3.06	-0.02	-0.12	+0.04	-0.86
	04/06	7.250	120.9800	3.82	+0.04	-0.01	+0.27	-0.86
	04/09	4.000	98.1300	4.23	+0.07	+0.06	+0.33	-0.73
	04/29	5.500	105.7300	5.12	+0.05	+0.06	+0.34	-0.40
Germany	05/01	5.000	103.9400	3.10	+0.03	-0.11	+0.11	-0.71
	01/06	6.000	112.1400	3.93	+0.06	-	+0.28	-0.78
	01/09	3.750	97.1100	4.11	+0.07	+0.04	+0.25	-0.82
	07/28	4.750	94.7800	5.10	+0.05	-0.07	+0.31	-0.42
Greece	03/00	9.800	100.4016	8.36	-0.06	-0.17	-0.50	-3.18
	01/09	6.300	102.2500	5.99	-0.04	-0.10	-0.17	-4.25
Ireland	10/01	6.500	108.0000	3.24	+0.01	-0.11	+0.09	-1.40
	08/08	6.000	113.1200	4.28	+0.05	+0.02	+0.25	-0.88
Italy	07/01	4.500	102.8300	3.21	+0.02	-0.12	+0.12	-1.30
	07/03	4.500	103.6700	3.58	+0.03	-0.07	+0.16	-1.16
	05/09	4.500	101.6400	4.30	+0.04	+0.03	+0.27	-0.91
	11/27	6.500	118.1000	5.27	+0.05	+0.07	+0.24	-0.48
Japan	12/00	6.800	111.6780	0.28	+0.06	-0.05	-0.35	-0.29
	12/03	4.100	114.8270	0.92	+0.05	-0.14	-0.54	-0.25
	06/08	1.800	100.7680	1.71	+0.07	-0.09	-0.43	+0.07
	09/18	2.300	95.2070	2.62	+0.08	-0.06	-0.26	+0.12
Netherlands	01/01	9.000	110.3100	3.12	+0.04	-0.08	+0.11	-0.81
	07/09	3.750	95.1100	4.22	+0.04	+0.03	+0.27	-0.88
New Zealand	02/01	8.000	105.1389	5.11	+0.04	-0.01	+0.05	-2.42
	07/09	7.000	107.9380	5.95	+0.03	+0.06	+0.28	-0.90
Norway	05/01	7.000	104.1000	4.98	-	-0.09	+0.17	+0.69
	05/09	5.500	103.5000	5.05	+0.06	-0.04	+0.32	-0.25
Portugal	03/00	5.375	102.3500	3.00	+0.01	-0.10	-0.08	-1.08
	06/08	5.375	108.0800	4.30	+0.03	-	+0.28	-0.82
Spain	01/01	6.000	103.5500	3.02	-0.02	-0.14	+0.03	-1.08
	07/09	5.150	104.5400	4.39	+0.07	+0.03	+0.59	-0.30
Sweden	05/00	10.250	107.5423	3.36	+0.02	-0.04	+0.04	-1.34
	05/08	6.500	114.7797	4.49	+0.07	+0.03	+0.34	-0.93
Switzerland	06/00	4.500	103.6700	1.47	+0.08	+0.06	+0.05	-0.11
	01/08	4.250	116.3000	2.18	-0.03	-0.11	-0.18	-0.88
UK	11/01	7.000	104.9000	5.00	+0.05	+0.07	+0.37	-1.61
	12/03	6.500	107.1600	4.79	+0.06	+0.09	+0.44	-1.29
	12/09	5.750	109.2400	4.65	+0.06	+0.04	+0.27	-1.32
	12/28	6.000	121.7600	4.64	+0.07	+0.08	+0.32	-1.30
US	01/01	4.500	98.9223	5.11	-0.02	-0.07	+0.27	-0.47
	02/04	4.750	98.1536	5.18	-0.04	-0.10	+0.28	-0.56
	11/08	4.750	96.2993	5.24	-0.05	-0.11	+0.21	-0.50
	02/29	5.250	95.1371	5.59	-0.01	-0.04	+0.13	-0.40

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 9	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.70	+1.57	+0.46
Austria	4.41	+0.28	-0.83
Belgium	4.32	+0.19	-0.92
Canada	5.33	+1.20	+0.09
Denmark	4.50	+0.37	-0.74
Finland	4.34	+0.21	-0.90
France	4.18	+0.05	-1.06
Germany	4.13	-	-1.11
Greece	6.12	+1.99	+0.88
Ireland	4.33	+0.20	-0.91
Italy	4.31	+0.18	-0.93
Japan	1.76	-2.37	-3.48
Netherlands	4.26	+0.13	-0.98
New Zealand	5.95	+1.82	+0.71
Norway	5.05	+0.92	-0.19
Portugal	4.37	+0.24	-0.87
Spain	4.42	+0.29	-0.82
Sweden	4.52	+0.39	-0.72
Switzerland	2.37	-1.76	-2.87
UK	4.75	+0.62	-0.49
US	5.24	+1.11	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	93.8450	9.43	+0.57	+0.01	+4.33
Poland	07/04	7.125	BBB-	105.3071	5.92	-0.05	-0.08	+0.76
Russia	06/07	10.000	n/a	23.0300	47.84	-0.19	+7.11	+42.63
LATIN AMERICA								
Argentina	09/27	9.750	BB	82.0600	11.97	-0.02	+0.14	+6.41
Brazil	05/27	10.125	B+	66.0000	15.45	-0.30	-0.69	+9.89
Mexico	05/26	11.500	BB	107.3000	10.67	-0.13	-0.42	+5.13
ASIA								
China	07/06	7.750	BBB+	99.7500	7.78	+0.01	+0.04	+3.38
Philippines	10/16	8.750	BB+	92.0481	9.70	-0.05	+0.12	+4.34
Thailand	04/07	7.750	BBB-	99.1000	7.90	+0.04	-0.16	+2.69
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.5211	6.33	-0.18	+0.19	+1.29
South Africa	10/06	8.375	BB+	98.3573	8.56	-0.07	-0.70	+3.37
Turkey	09/07	10.000	B	90.9380	11.71	-0.08	-0.53	+6.50
BRADY BONDS								
Argentina	03/23	5.750	BB	68.7500	9.26	-0.04	-0.03	+3.77
Brazil	04/14	5.000	B+	59.3750	14.09	-0.23	-0.98	+8.78
Mexico	12/19	6.250	BB	76.5000	8.71	-0.05	-0.11	+3.30
Venezuela	03/20	6.750	B+	64.3750	11.18	-0.04	-0.17	+5.75

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110.06	109.77	-0.28	110.38	109.41	37,208	71,939

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
97	0.02	-	0.18	3.38	-	3.53
98	-	-	0.08	4.37	-	4.43
99	-	-	0.04	5.37	-	5.37
100	-	-	0.02	5.87	-	6.37

Est. vol. total, Calls 1,054 Puts 0. Previous day's open int., Calls 1,276 Puts 1,785

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.29	113.03	-0.27	113.64	112.57	605,083	607,450

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106.49	106.40	-0.08	106.80	106.22	202,599	220,520

NOTIONAL LPB SWAP FUTURES (LIFFE) 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		101.15	-0.04			0	947

NOTIONAL LPB SWAP FUTURES (LIFFE) 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		100.29	-0.32			0	545

Also traded on APT. All Open Interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.50	112.18	-0.29	112.71	111.89	12500	35899

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.56	115.19	-0.36	115.84	115.00	27,080	28,817
Jun	97.31	98.99		97.31	97.31	1	2

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		107.85	-0.19			0	83
Jun		107.55	-0.19			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	115.36	115.08	-0.74	115.56	115.08	2383	3613
Jun	116.50	115.63	-0.74	116.68	115.40	43429	73380

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11500	1.60	2.53	1.28	1.90
11550	1.30	2.27	1.47	2.14
11600	1.35	2.03	1.72	2.40
11650	1.13	1.81	2.00	2.69
11700	0.94	1.60	2.31	2.97
11750	0.77	1.42	2.64	3.25

Est. vol. total, Calls 302 Puts 55. Previous day's open int., Calls 9554 Puts 7762

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	120-20	120-17	-0-10	121-05	120-08	14,140	125,086
Jun	120-13	120-09	-0-10	120-28	119-25	178,955	393,067
Sep	119-21	119-23	-0-09	120-08	119-21	18	14,884

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	132.86	132.83		132.89	132.53	1035	n/a
Jun	131.55	131.31		131.66	131.15	2937	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.70	105.54	-2.04	105.70	105.70	2	144

US CORPORATE BONDS

Mar 8	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.2391	5.82	-0.02	+0.37	+5.80
NY Tel	08/25	7.00	A-	98.5162	7.12	-0.07	+0.18	+1.53
CWE	05/08	8.00	BBB	111.5496	6.32	-0.03	+0.34	+1.04
FINANCIALS								
GECC	09/07	8.75	AAA	117.1781	6.05	-0.04	+0.27	+0.77
Banc One	08/02	7.25	A	103.9436	5.94	-0.02	+0.32	+5.94
CNA Fin	01/18	6.95	A-	[illegible]	7.86	-0.04	+0.35	+2.07
INDUSTRIALS								
WMX Tech	04/08	6.25	BBB+	100.0229	6.67	-0.06	-0.15	+1.09
Wal Mart	08/02	6.75	AA	103.4827	5.53	-0.05	+0.48	+5.63
Dayton Hud	08/21	9.70	A-	131.5260	6.90	-0.04	+0.29	+1.31
AGENCIES								
FHLMC	04/07	7.14	N/A	108.3400	5.83	-0.03	+0.26	+0.68
SLMA	02/00	7.50	N/A	102.1008	5.30	-0.01	+0.13	+0.72
FNMA	02/18	8.95	N/A	130.7850	6.16	-0.02	+0.24	+0.67
FFCB	08/06	8.85	N/A	118.8603	5.75	-0.09	+0.23	+0.47
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.5000	0.00	-	-	-
Pacalia	08/04	10.75	B-	84.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	5.08
Broker loan rate	6½	Two month	-	Three year	5.12
Fed.funds	4¾	Three month	4.61	Five year	5.17
Fed.funds at intervention	-	Six month	4.70	10-year	5.22
		One year	4.79	30-year	5.57

INTERNATIONAL BONDS

Mar 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Spread v Govts
US $								
EIB	04/07	7.250	AAA	108.4695	5.90	-0.06	+0.34	+0.69
ABN Amro	06/07	7.125	AA-	104.8260	6.35	-0.06	+0.12	+1.14
Quebec	01/07	7.000	A+	106.0706	6.02	-0.06	+0.06	+0.81
Citicorp FRN	02/04	5.086	AA-	98.8649	[illegible]	-0.07	-0.24	+0.14
CANADIAN $								
Bayer L-Bk	08/04	9.500	AAA	116.6727	5.81	+0.01	+0.32	+0.29
Toronto (M of)	05/04	8.500	AA+	111.9900	5.76	-	+0.37	+0.15
Bell Canada	07/09	10.625	A+	[illegible]	5.66	+0.02	+0.33	+1.25
Deutsche B FRN	09/02	5.575	AA+	100.1393	5.83	+0.01	+0.27	+0.29
£								
EIB	12/07	7.625	AAA	115.4393	5.36	+0.07	+0.39	+0.49
Dresdner Bk	12/07	7.750	AA-	110.3144	[illegible]	[illegible]	+0.32	+1.31
British Gas	03/00	7.625	A+	101.9800	5.82	-0.03	-0.10	+0.59
Abbey Nat FRN	02/02	5.587	AA	100.0250	4.51	+0.03	+0.26	-0.41
SFR								
EIB	01/08	3.750	AAA	[illegible]	3.17	-0.03	-0.14	+0.05
Brit Columbia	02/02	3.250	AA	103.7099	1.94	+0.01	+0.01	+0.28
Hydro-Quebec	05/01	6.750	n/a	108.7227	2.60	+0.03	+0.03	+1.04
Gen Elect.	09/01	1.711	n/a	99.7672	1.54	+0.02	+0.02	-0.02
YEN								
IBRD (World Bk)	03/02	6.250	AAA	114.2942	0.48	+0.06	-0.34	-0.03
Spain (Kingdom)	03/02	5.750	AA	115.6518	0.53	+0.06	-0.36	+0.02
Cred Foncier	09/02	4.750	A	112.4988	1.00	+0.08	-0.43	+0.49
Italy (Rep of)	07/99	0.518	AA	100.0451	0.27	+0.06	-0.13	+0.01
A$								
IBRD (World Bk)	02/08	6.000	AAA	100.5295	5.92	+0.05	+0.25	+0.24
New Sth Wales Tr	05/06	6.500	n/a	102.1047	5.94	+0.06	+0.29	+0.36
S. Aus Gov Fin	06/03	7.750	AA	105.7458	5.91	+0.03	+0.19	+0.58
GMAC Aust	06/01	9.000	n/a	106.4593	6.76	+0.03	+0.14	+0.63

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Chinese whispers warn of devaluation

MARKETS REPORT

By Melanie Carroll and Alan Beattie

China raised interest rates yesterday for local accounts held in US and Hong Kong dollars, sparking rumours that the renminbi might be devalued.

The People's Bank of China (PBOC) raised the interest rate for one-year US dollar deposits from 3.75 per cent to 4.4375 per cent.

But the PBOC denied reports that it has pulled together an informal team to look at a possible renminbi devaluation.

One analyst from a bank in London said markets had quickly come to the conclusion that the rumours were without substance, and had behaved calmly.

He said the interest rate rise was not a surprise move, and showed confidence in the local currency more than a fear of currency flight by investors.

Gene Frieda, analyst at the economics consultancy 4Cast, said he believed the devaluation rumour had started partly because the PBOC has held back crucial information.

Of particular interest are last year's unreleased balance of payments data, and the bank's foreign exchange reserves, he said.

Mr Frieda added that the PBOC has a very strong aversion to losing any of its reserves despite its large currency stockpile.

■ The yen strengthened against the dollar yesterday as comments from the Bank of Japan diminished the chances of another Japanese monetary policy loosening in the very near term.

Masaru Hayami, the BoJ's governor, said yesterday that he expected interest rates to rise over time. JGB yields rose sharply on the comments, made during the Asian trading session, and the yen climbed against the dollar.

At one point the dollar fell to Y120.6, its lowest level for around a week. But it recovered later on the fears of an impending Chinese devaluation, and for the rest of the London session traded above Y121 against the yen.

Mr Hayami's comments confirmed for many that this Friday's BoJ board meeting was unlikely to see any further radical moves to pump more money into the Japanese economy.

But Joe Prendergast, head of global foreign exchange research for Credit Suisse First Boston, said it was careful to distinguish between comments made for financial markets' consumption and those aimed at domestic consumers.

"With an ageing population dependent on interest income, the Bank of Japan has to strike a balance between saying that the monetary easing is significant and saying it is temporary," he said.

Cameron Crise, currency strategist at Warburg Dillon Read in London, said the market was disappointed with Hayami's comments, which seem to indicate that he is still worried about inflation. "But the opacity of Japanese policy-making prevents any clear conclusion being drawn," he added.

Mr Crise said that that the policy uncertainty meant fewer investors were willing to take long-term positions in the yen.

"This is making the yen a very shortterm flow-driven currency," he added.

■ Sterling trod water yesterday despite the potentially important effects of the UK Budget.

The pound remained fixed just below $1.61 for most of the day ahead of the annual UK Budget, delivered towards the end of the London session. Traders expected few surprises in the Budget. Only a downgrading of the government's growth forecast or an announcement on European monetary union were expected to move sterling significantly.

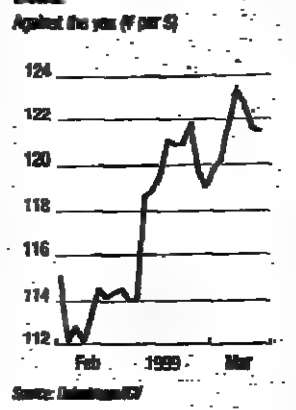
In the event neither happened and the pound moved little on the day.

■ The Thai central bank yesterday tried to tighten restrictions on dollar/baht swaps to prevent speculators from taking advantage of the large difference between on- and off-shore forward swap premiums.

The Thai central bank asked traders to stop selling tomorrow/next day swaps to overseas customers to restrict the amount of baht in offshore markets. This will make it harder for investors to sell the currency.

Dollar

Against the yen (Y per $)



Source: [illegible]

■ POUND IN NEW YORK

Mar 9	Latest	Prev. close
£ spot	[illegible]	1.6065
1 mth	1.6176	1.6078
3 mth	1.6170	1.6070
1 yr	1.6179	1.6085

■ OTHER CURRENCIES

Mar 9	£	$
Czech	35.2465 - 35.3202	21.8570 - 21.8750
Hungary	371.215 - 371.861	229.940 - 230.240
Iran	4845.30 - 4843.20	3000.00 - 3000.00
Kuwait	0.4925 - 0.4929	0.3051 - 0.3052
Peru	5.4908 - 5.4934	3.4010 - 3.4050
Poland	6.3393 - 6.3457	3.9230 - 3.9290
Russia	37.2240 - 37.7297	[illegible]
U.A.E.	5.9292 - 5.9326	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 9		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.4082	+0.0810	991 - 173	20.4283	20.3106	20.3656	2.5	20.2911	2.3	19.9936	2.2	102.6
Belgium*	(BFr)	59.8290	+0.2375	023 - 557	59.8880	59.5430	59.7038	2.5	59.4858	2.3	58.5254	2.2	102.2
Denmark	(DKr)	11.0234	+0.0425	178 - 290	11.0340	10.9678	11.0035	2.2	10.9677	2.0	10.8238	1.8	105.5
Finland*	(FM)	8.8183	+0.0350	143 - 222	8.8270	8.7760	8.7999	2.5	8.7677	2.3	8.6392	2.2	81.8
France*	(FFr)	9.7287	+0.0387	243 - 330	[illegible]	9.6922	9.7083	2.5	9.6729	2.3	9.5189	2.2	105.5
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.6386	-0.0058	[illegible] - 415	12.6706	12.6045	12.6184	1.9	12.5702	1.9	12.3633	2.2	102.4
Belgium*	(BFr)	37.0516	-0.0170	431 - 601	37.1450	36.9510	36.9923	1.9	36.8771	1.9	36.2443	2.2	102.3
Denmark	(DKr)	6.8267	-0.0038	247 - 287	6.8432	6.8061	6.8177	1.8	6.7982	1.8	6.7032	1.8	104.8
Finland*	(FM)	5.4611	-0.0025	598 - 623	5.4748	5.4463	5.4524	1.9	5.4354	1.9	5.3421	2.2	80.5
France*	(FFr)	6.0249	-0.0027	[illegible]	6.0401	6.0086	6.0152	1.9	5.9965	1.9	5.8937	2.2	106.0
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Mar 9	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3	3⅛	3⅛	3⅛	3⅛	-	3.00	3.00
Switzerland	1¼	1⅜	1⅜	1¼	1½	-	1.00	-
US	4⅝	4⅞	4⅞	5⅛	5⅜	-	4.50	-
Japan	⅛	⅛	⅛	⅛	⅛	-	0.50	-
[illegible]								

INTERNATIONAL CURRENCY RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	•Robert Fleming & Co	5.50	Sun Bank	5.50
•Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	•Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50	• Members of London Investment Banking Association	
Brit Bk of Mid East	5.50	•Leopold Joseph & Sons	5.50		
•Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	•Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	•Singer & Friedlander	5.50		

COMMODITIES & AGRICULTURE

Increase in demand seen for platinum

By Gillian O'Connor
Mining Correspondent

Platinum group metals are providing one of the few glimmers of light in otherwise depressed metals markets.

Platinum itself had a run-up last month, but the real action has been in two important associated metals, palladium and rhodium, both of which have trebled in price (in US dollar terms) since the start of 1997.

The buoyant markets have also helped share prices of platinum producers. The platinum group metals' strength stems from its use for cleaning up vehicle exhaust emissions in autocatalysts. More stringent standards, particularly in the US, mean demand is set to rise.

Shares of South African platinum producers, whose profitability has been helped by a weaker rand, have been especially buoyant. Impala Platinum, for instance, has risen by about 140 per cent since the start of 1997. Mercury Asset Management now has over 13 per cent of its £74m ($119m) Gold & General unit trust invested in South African platinum shares.

Supply of the metals is already tight, particularly in palladium, where Russia is the largest producer. Exports from Norilsk, in Arctic Russia, are plagued by physical and bureaucratic delays, although a new long-term export licence for palladium was last week said to have been agreed.

Worldwide demand for palladium was 8.2m ounces in 1998, about 3m more than new production, according to Johnson Matthey, and supply deficits are expected to continue into 2000. Analysts disagree whether Russia can or will plug the gap.

"Since 1994, Russia has sold about 10m ounces from its stocks to balance increasing demand. However, the size and availability of the remaining stocks remain a state secret and leaves the market in uncertainty," says the latest strategic report from Canadian researchers Metals Economics Group.

Expectations of strong demand have already prompted leading palladium producers to expand production, both through new mines and expansion at existing mines. MEG estimates how these expansion plans will add to supply as follows:

● The 14 major palladium producing mines could increase their capacity from 5.2m ounces in 1999 to 5.6m ounces in 2001. This estimate assumes no increase at Norilsk, whose capacity is left unchanged at 2.5m ounces. Capacity is expected to remain unchanged at Inco's Ontario division and Gold Fields' Northam mine. All others are expected to rise, with notably large capacity increases at North American Palladium's Lac Des Isles Mine (up 120,000 ounces to 200,000 ounces) and BHP/Zimplats' Hartley mine (up 80,000 ounces to 110,000 ounces).

● Six potential new mines, most with start-up dates of 2001 or earlier, could add another 800,000 ounces to annual palladium production capacity. The three largest are: Stillwater's East Boulder (384,000 ounces); Zimplats' Ngezi (134,000); Amplats' Bafokeng-Rasimone (100,000).

● Another five projects are at an early stage of exploration.

Strategic Report from Metals Economics Group, PO Box 2206, Halifax, Nova Scotia, Canada B3J 3C4

China urged to boost gold reserves

By James Harding in Beijing

China should triple the ratio of gold in the foreign exchange reserves, which have become over-invested in US dollars, according to a recommendation by a senior official at the national gold bureau.

The allocation of China's $145bn foreign exchange reserves, the second largest in the world, has the power to sway currency markets.

The proposal to boost China's gold reserves bucks the recent trend of disposals of gold holdings by central banks particularly in Europe, but if Beijing takes up the recommendation, it could offer support for flagging international gold prices.

But the suggestion from a gold industry official also underlines how gold has lost some of its shine in China, where public consumption has slumped over the past five years and government demand stagnated.

Liu Shanen, deputy director of the gold economic development research centre at the ministry of metallurgical industry, warned that excessive US weighting of the foreign exchange reserves could "mean holding national security hostage to the US dollar".

The real extent of Chinese gold holdings is a state secret. According to the published figures, China's holdings in gold have been steady at around 397 tonnes for more than a decade.

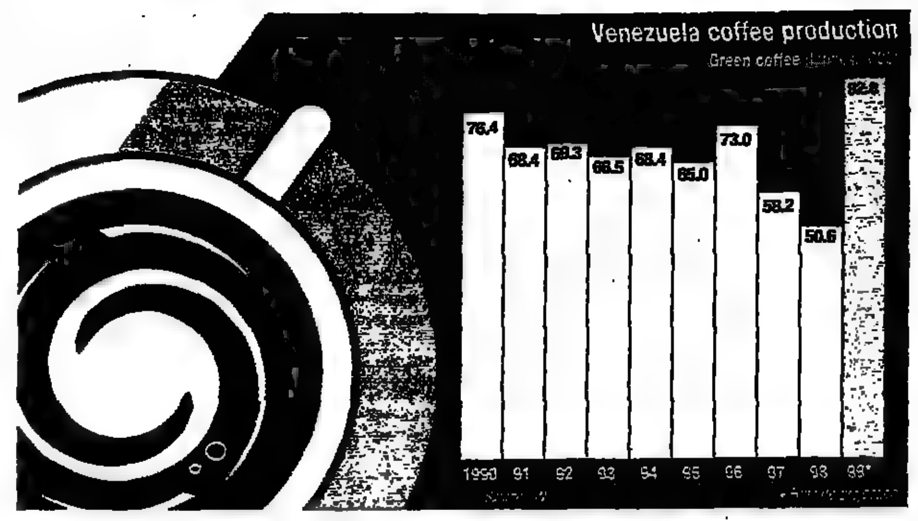
That represents a ratio of 2.9 per cent of the foreign exchange reserves, significantly lower than countries such as the US (71 per cent) and France (47 per cent) according to World Gold Council figures.

The published figures are treated with great scepticism by the industry, which estimates the central bank holds perhaps as much as 1,000 tonnes of gold.

Mr Liu, who has submitted his proposal to the managers of China's exchange reserves but has no influence over their decision, says there are doubts over the possible "overvaluation of the US dollar", the volatility of the Japanese yen and the "uncertainties" that surround the infant euro.

Venezuelan coffee industry perks up

The Caribbean country has renewed its focus on the crop, says **Raymond Colitt**



As Venezuela's oil industry, the principal source of foreign exchange, is hit by record low petrol prices and production cuts, the Caribbean nation is rediscovering what was once its leading cash crop – coffee.

For decades, the country's coffee industry had been overshadowed by oil. Farmers abandoned their coffee plantations for more lucrative jobs in the cities, and coffee production plummeted as oil output soared.

But today, a coffee renaissance is under way, as coffee growers are boosting productivity and quality and staging a gradual comeback on international markets.

According to Gustavo Mendoza Sánchez, managing director of Foncafe, the state coffee fund, production for the harvest ending this September is to reach a 50-year high of 1.8m quintals (1.38m 60kg bags). That is up from only 1.2m quintals last year.

The industry's turnround began in 1992, when Foncafe relinquished its monopoly on distributing coffee and fixing prices. The deregulated sector attracted fresh investment capital.

In addition, Foncafe launched a technical assistance programme aimed at increasing productivity by replacing old coffee bushes and applying new production techniques.

"We are now beginning to see the results of those efforts," says Mr Mendoza.

Unlike other coffee exporters, Venezuela traditionally consumed much of its best coffee domestically. At 780,000 bags a year for a population of 22m, per capita coffee consumption has been among the highest in the world.

Yet, a prolonged economic crisis and slumping consumer demand has forced producers to look for overseas markets.

For example, Antonio Ruiz, a farmer in the western state of Mérida, has become a model for the rest of the industry. Production yields at his Los Canales plantation reach a record 94 bags a hectare because of high density planting and the frequent pruning of trees.

"I was tired of the local buyers, who paid little and late. Now I have a better income," he says, though he admits Venezuelan coffee producers still have some way to go in convincing foreign buyers of quality and reliability in their delivery.

"Without the intermediation of Foncafe, we can deal directly with traders and get better deals," says José Yánez, head of an association of 1,600 coffee producers in Portuguesa.

The incentive to export is apparent. While a 58kg bag of premium washed coffee sells for 47,000 bolivars ($81.5) in Caracas, it can fetch 62,000 bolivars ($107.5) in New York with shipping and handling cost of $5, says Javier Dominguez, a Caracas coffee trader.

However, not everyone has been able to overcome the domestic slump in demand. Dionisio Gómez, a small producer in Mérida, says he took out a loan to modernise his coffee plantation when interest rates rose dramatically and prices fell. "Not only am I short of cash to make the improvements that foreign buyers demand, but at 900 bolivars per pound, I'm earning 30 bolivars less than my production cost," he says.

The biggest challenge for Venezuela's coffee producers is accessing the international market and establishing a name for Venezuelan brands, says Mr Dominguez. "We are still at a 10 per cent discount to New York's spot market because our coffee is not known," he says.

There is also the continuous threat from la Broca, an insect that has affected much of neighbouring Colombia's production. It has been brought to Venezuela largely by contraband coffee from Colombia, and Foncafe has launched an intense awareness campaign to limit its spread.

Still, Mr Mendoza says exports could exceed 600,000 bags for the season ending in September. This is still modest compared with neighbouring Colombia or Brazil but nearly four times the 160,000 bags sold abroad last year.

Indeed, he is confident Venezuela will regain its prestige on the international market.

The future of Venezuela's coffee industry could receive a further boost. As part of its plans to diversify the economy, the government is to stimulate agriculture via infrastructure projects and cheap loans.

"The recovery of the country's coffee sector may well depend on these policies," says Mr Yánez.

Prospect of Opec deal lifts oil prices

MARKETS REPORT

By Robert Corzine and Gillian O'Connor

Oil prices firmed yesterday as one of the presumed barriers to another round of Opec production cuts was reported to have been overcome in recent talks between Saudi Arabia and Iran.

The price of Brent Blend for April delivery was quoted at $11.83 a barrel in late trading on London's International Petroleum Exchange, 7 cents up on Monday's close.

Early losses were quickly clawed back after a report suggested that Saudi Arabia, Opec's dominant member, had accepted a new basis from which to measure Iran's production cuts.

Most analysts say another big Opec cut will be needed to push prices substantially higher. But as Philip Verleger, a US oil economist, points out in his latest monthly report, history suggests commodity restraint agreements are usually only effective at raising prices when underlying "...demand is strong and economic conditions are good. Such a state of affairs does not exist today".

Alcan Aluminium warned yesterday that its first-quarter net income was likely to be 50-60 per cent lower than in the 1998 fourth quarter, but showed no inclination to cut production. Similar stoicism across the industry is the main reason analysts expect the LME price of aluminium to continue weak. So far this year it is down about 8 per cent on its level at the end of 1998.

At current price levels a number of producers are not covering their operating costs. But substantial fixed costs mean that closure could leave them with even higher running losses.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1143-4	1166.5-7.5
Previous	1143-44	1167.5-68
High/low		1170/1163
AM Official	1143-4	1167.5-8.0
Kerb close		1164-5
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1013-8	1037-8
Previous	1013-18	1037-39
High/low		1037
AM Official	1017-8	1040-2
Kerb close		1037-40
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	496.5-7.5	501-2
Previous	505-6	505-6
High/low		504/494
AM Official	500-1	504-4.5
Kerb close		502-3
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4880-90	4950-60
Previous	4925-35	4990-5000
High/low		5025/4900
AM Official	4930-35	4980-85
Kerb close		4905-10
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5425-35	5350-55
Previous	5375-80	5315-20
High/low		5360/5310
AM Official	5390-400	5320-25
Kerb close		5340-50
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1025-6	1035-6
Previous	1035-36	1044-45
High/low		1039/1027

LONDON TRADED OPTIONS

■ COCOA LIFFE

	May	Jul	May	Jul
900	15	36	47	51
925	9	26	68	66
950	5	19	87	84

■ BRENT CRUDE IPE

	Apr	May	Apr	May
1050	135	-	-	20
1100	63	-	6	29
1150	18	-	12	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.05-1.20	-0.22
Brent Blend (dated)	$11.23-1.31	-0.265
Brent Blend (Apr)	$11.74-1.82	-0.255
W.T.I.	$13.79-3.81x	-0.075

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline ‡	$126-128	
Gas Oil	$113-115	
Heavy Fuel Oil	$56-57	-0.5
Naphtha	$109-111	
Jet fuel	$123-124	-2
Diesel	$116-118	

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.50-9.60	+0.13

Petroleum Argus. Tel. London (0171) 359 8792

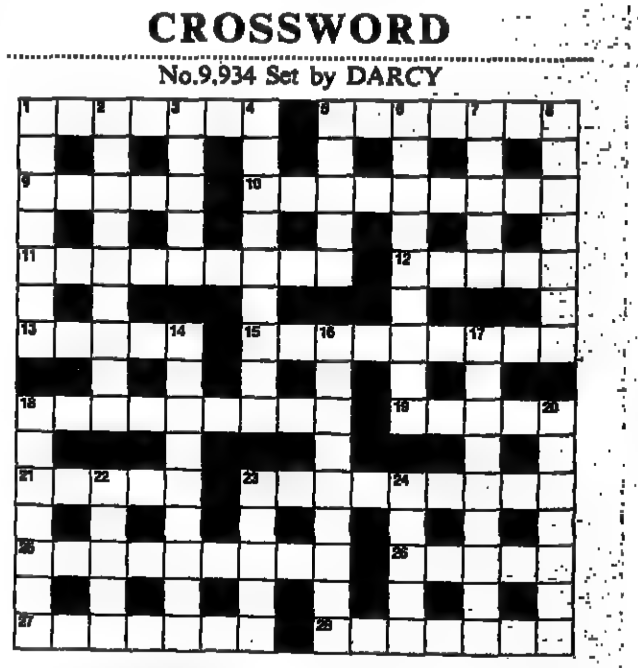
■ OTHER

Gold (per troy oz)♣	$292.45	+2.90
Silver (per troy oz)♣	532.00c	+7.50
Platinum (per troy oz.)	$375.00	-1.50
Palladium (per troy oz.)	$346.00	-1.00
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.90r	
Tin (New York)	255.5	+1.0
Cattle (live weight)	[illegible]	+1.35*
Sheep (live weight)	95.95p	+7.42*
Pigs (live weight)†	64.89p	+3.43*
Lon. day sugar (raw)	$151.10	-0.60
Lon. day sugar (wte)	$217.90	-1.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)♥	45.50p	
Rubber (Apr)♥	46.00p	
Rubber (KL RSS No1)	254.50m	-1.50
Coconut Oil (Phil)§	700.0	
Palm Oil (Malay.)§	472.5y	
Copra (Phil)§	445.0z	
Soyabeans (US)	148.5y	
Cotton Outlook 'A' index	58.35	-0.10
Wooltops (64s Super)	292p	

Tea from the Tea Brokers' Association Mombasa: There was a strong and improved demand. Prices for the best BP1s not maintained but other brighter and mediums were irregular but on balance, firm. Neater lower mediums and plainer sorts were about 5 to 15 cents dearer but poor leaf/fibrous types tended to be neglected. Brighter PF1s tended dearer by about 3 to 7 cents. Colouury mediums were dearer by 5 to 10 cents with lighter and brighter sorts up to 18 cents dearer. Lower mediums and plainer sorts were a strong feature and dearer by 5 to 15 cents and sometimes more. Brighter liquoring p.dusts were irregularly easier.

CROSSWORD

No.9,934 Set by DARCY



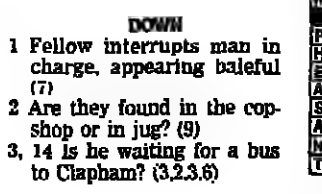
ACROSS

1 King captures knight, possibly an islander (7)
5 Pop out and search round for something like the Dandy (7)
9 Lord missing a Roman poet? (5)
10 Almost regret one state's disaster (9)
11, 12 Where this puzzle offers a challenge? (9,5)
13 Space traveller found me in bed (5)
15 Stop filming after old-fashioned shot of a striker? (6,3)
18 What property-owners did with devilish tenant (9)
19 Nearly have a memory-lapse in the workshop (5)
21, 23 Cashing in, when group's on drugs (5-9)
25 Swan about during a dance she was involved in? (9)
26 City has agreement for German and Spanish wine (5)
27 Get zany antics in oriental river (7)
28 When figure finally goes, destined to develop bulge? (7)

DOWN

1 Fellow interrupts man in charge, appearing baleful (7)
2 Are they found in the cop-shop or in jug? (9)
3, 14 Is he waiting for a bus to Clapham? (3,2,3,6)
4 The flower of Greek youth (9)
5 Gathered material from cockney's account of exciting experience (5)
6, 24 Material for models of exhibits in the Louvre? (7,2,5)
7 Language is the same where 1 across lives (5)
8 Means of communication picked up by crew on SF movie (7)
14 See 3
16 Crafty subordinate worker (9)
17 Possibly bear being restricted in diet (9)
18 Pleasure-seeker – a sort of Peter Pan? (7)
20 Area over the border – in Wales or Scotland? (7)
22 Hairdresser's loans sorted out (5)
23 Nick is hard hit (5)
24 See 6

Solution 9,933



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Barclays International Funds

PO Box 152, St Helier, Jersey CI 01534 812700

Gartmore Fund Managers Intl Ltd (z)

PO Box 278, 45 La Motte St, Jersey 01534 608686

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

PO Box 657 New Street, St Helier, Jersey 01534 604614

Lloyds Bank (CI) U/T Mgrs.

PO Box 311, St Helier, Jersey 01534 284242

Lloyds TSB Fund Managers (CI) Ltd

PO Box 538, St Helier, Jersey 01534 503002

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

SG Hambros Fund Managers (Jersey) Ltd

Standard Bank Fund Mgmt (Jersey) Ltd

WMB Asset Management (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

Fidelity Funds - Contd.

Fleming Group

Lloyds Bank Luxembourg - Contd.

Schroder International Selection Fd - Contd.

LUXEMBOURG
(REGULATED)(**)

HYPO Capital Mgmt Invest Luxembourg SA

SCI/TECH SA

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

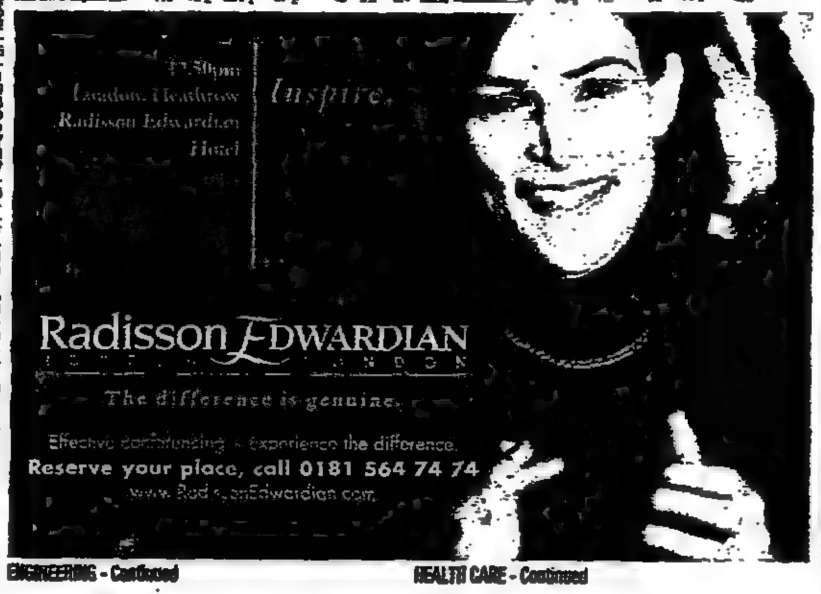
INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL



هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by *Financial Times Information*.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend cover are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ⊕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on assumed dividend. b Figures based on prospectus or other official estimates. f Dividend/yield adjusted for complex issue. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Dividend/yield includes amount payable after 6/4/99. z Dividend yield excludes a special payment. F Yield based on prospectus or other official estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1999. X Yield based on prospectus or other official estimates for 1998. J Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). P Dividend/yield adjusted for consolidation or share split. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. *Calls are charged at 60p per minute at all times.*

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For Retail Price Index details call 0906 843 4005.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which *also has the closing share prices printed on these pages.*

LONDON STOCK EXCHANGE

Footsie edges higher during chancellor's speech

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The FTSE 100, delicately poised at 6,219.6 as the chancellor of the exchequer rose to deliver his third Budget speech in Parliament, gradually edged ahead, gaining in confidence as the speech progressed with only a few hiccups spoiling the party.

The effect of a half-point fall in gilts, which were not pleased by the apparent generosity of the chancellor's package, was offset by the potential boost to consumer spending that would result from the tax cuts announced.

With the market closing minutes before Gordon Brown announced next year's income tax cut, the index ended 28.9 ahead at 6,237.7.

There were few problems for the market's middle-ranking stocks or the small-caps, both of which ended not far short of their session highs. The FTSE 250 closed 16.5 firmer at 5,375.7 after a day's high of 5,378.3, while the FTSE SmallCap was finally 7.0 up at 2,322.9.

The market leaders had made rapid progress at the start of the day, with the FTSE 100 racing up almost 80 points and getting to within 32 points of its previous intra-day high – 6,319.8 – as dealers reacted to Wall Street's overnight strength.

The Dow Jones Industrial Average slipped 6 points, but the S&P 500 hit a record high. And the two leading Asian markets, Tokyo and Hong Kong, also made rapid progress.

Wall Street set an uncertain tone at the start of trading yesterday, only to rally strongly as London closed.

The initial reaction to the Budget proposals was that the equity market would probably make progress.

The head of market making at one big European investment bank described the Budget as "a bit boring".

He added: "There were no really big shocks. The market feels okay as we speak, but it is near its peak and we will depend on Wall Street."

Another said he saw the Budget as "neutral, as expected. I think we'll go better simply because the Budget is out of the way."

David Butler, head of institutional sales at Teather & Greenwood, said: "The only surprise is that the chancellor left the drinks sector alone, which has to be bullish. But, truthfully, if Wall Street is down 150 points tonight, then we'll come in lower. If it's 200 points better, we'll come in higher."

Bob Semple, UK equity market strategist at BT Alex Brown, said the Budget was biased towards the consumer and it looked as if it could boost the equity market.

"But there will be a worry over the likely performance of sterling and gilts," he warned.

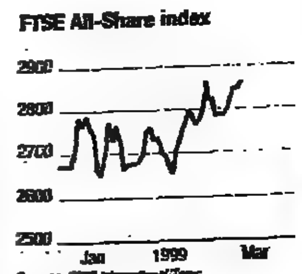
The Budget moves produced plenty of shifts among the various sectors, with the big drinks companies stabilising as the market registered surprise that the chancellor had left duty on beer, wines and spirits untouched.

But there was a significant sell-off in the water stocks and BAA as the chancellor said he would introduce a competition review.

Computer, IT stocks and Dixons, the high street retailer, were being chased after the proposed "computers for all" measures.

Turnover in equities finished just short of the 1bn mark, reaching 997.7m shares.

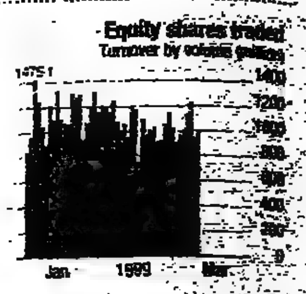
FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	6237.7	+28.9	FT 30	3775.5	+4.6
FTSE 250	5375.7	+16.5	FTSE Non-Fins p/e	24.89	24.55
FTSE 350	2959.5	+12.9	FTSE 100 Fut Mar	6240.5	+4.5
FTSE All-Share	2861.13	+12.34	10 yr Gilt yield	4.83	4.76
FTSE All-Share yield	2.67	2.69	Long gilt/equity yld ratio	1.81	1.79

Best performing sectors

1. Leisure & Hotels +2.0
2. Support Services +1.8
3. Property +1.6
4. Pharmaceuticals +1.5
5. Investment Trusts +1.1

Worst performing sectors

1. Water −3.5
2. Household Goods & Textiles −2.8
3. Tobacco −2.3
4. Oil Exploration & Prod −1.5
5. Utilities −1.3

Brewer presses its case

COMPANIES REPORT

By Joel Kibazo, Peter John and Martin Brice

Drinks group South African Breweries yesterday surged through the 500p barrier on its way to securing a place in the FTSE 100 index.

Official dealings in SAB started on Monday, and dealers were confident that the rise in the stock, up 22½ to 507½p, would see the company join the premier listing.

The FTSE equity indices committee will meet today for its quarterly meeting at which the new constituents of the leading index will be named. The changes take effect on March 22.

Telecoms group Energis is also expected to join the FTSE 100 rankings. National Grid reduced its holding in the group from just over 74 per cent to 49.5 per cent earlier this year.

ABN Amro reiterated its buy stance on Energis and reiterated its £17.50 share price target. However profit-taking left the shares trailing 42½ to £15.55.

National Grid recovered from recent lows to close 8 ahead at 438½p. Credit Lyonnais recently upgraded stock to "add" from "reduce".

Supporters of Misys were also confident the information technology group would return to the Footsie. Active buying helped the shares firm 8 to 645p.

Hopes of a stay of execution for Tomkins faded and the shares gave up 3¾ to 206½p, in trade of 6m. The stock is expected to fall out of the FTSE 100, as is Williams, which hardened 4 to 364½p.

Tobacco company Gallaher might also be ejected from the premier listing. The shares fell 15¾ to 414¾p.

Dealers reported aggressive buying of mining group Billiton amid hopes that it will hold on to its place. The company has been buying back its own shares through Strand Investment Holdings, but it denied it was the big buyer of stock yesterday. The shares gained 4½ to 141½p in trade of 15m.

Albright & Wilson, the phosphates group facing a bid from Albemarle of the US, jumped sharply as the prospect grew that another company would throw its hat into the ring.

The rise of 10½ to 140p took the shares well above Albemarle's 130p a share offer and reflected a statement by Rhodia of France that it was "reviewing its options" with its advisers following Monday's recommended bid. Rhodia had been seen as a favourite to buy. It said it has had preliminary discussions with A&W, but has not so far put forward any offer proposals.

British American Tobacco shed 15 to 537½p on heavy turnover of 12m shares after the group posted a decline in annual profits and warned that the current quarter would be unlikely to match last year's.

Martin Broughton, chairman, said the difficult trading conditions that had such a marked impact at the end of last year were persisting in the first quarter of 1999. BAT's profit fell 16 per cent to £738m though this was largely due to a £613m charge related to the US legal settlement on claims for smoking-related diseases. Operating profit before exceptionals was down only 3 per cent to £1.55bn.

Analysts were also trimming profit numbers, with one of the most bearish pencilling in £1.18bn for 1999.

WPP was the best performer in the FTSE 100 with a rise of 21½ to 548½p. WestLB Panmure has been highlighting the value gap between the stock and its main US competitors.

Barbour Index, the construction, health and safety data supplier, lifted 7 to 302½p on news of an acquisition battle for the company. United News & Media and Emap are both reported to be in talks with Barbour. Havas of France is also rumoured to be interested.

United, which was earlier downgraded by Goldman Sachs, dipped 1½ to 642½p. Emap, which has an outside chance of joining the Footsie tomorrow, lifted 15 to £14.15.

Budget boosts Dixons

Electrical goods retailer Dixons Group moved strongly ahead after the chancellor of the exchequer unveiled new measures in the Budget to encourage computer use and information technology literacy. The shares closed up 50 at £12.66. Turnover reached 5.6m.

The commitment in the Budget to increase spending by schools on IT saw RM achieve a record high. It gained 46 to 626p.

Water stocks fell heavily after the chancellor raised the prospect of increased competition in the sector. **Thames** fell 47 to 968p. **United Utilities** 33 to 784½p and **Severn Trent** 37 to 852p.

Director share-buying and well-received figures helped **Independent Insurance** jump 30½ to 260p. Chief executive Michael Bright bought just under 200,000 shares to take his holding to 6 per cent and deputy managing director Philip Condon bought 35,000. The company announced a 22 per cent jump in underwriting profits.

London Forfaiting, the trade finance group whose share price was battered by a profit warning in January, recovered 13 to 64½p following speculation of a takeover at 120p a share.

Nycomed Amersham rose 14 to 474p after an upgrade by Morgan Stanley Dean Witter on well-received figures from the health care group on Monday. The US broker increased its target on the shares from 525p to 600p, raised its earnings per share forecast from 25.6p to 27.6p and reiterated its "strong buy".

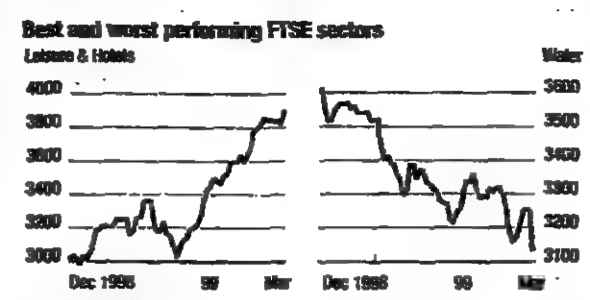
Airports operator BAA fell as the Budget included an announcement that John Prescott, the deputy prime minister, would examine competition among UK airports.

The shares closed off 10½ at 695p, although one transport industry analyst said: "It is obviously a target because it is mostly a monopoly provider, but to break it up would be very difficult and it is already heavily regulated."

News in the Budget that the government is to reduce tax on football pools to 17.5 per cent from 26.5 per cent helped trigger interest in gaming and hotels company Ladbroke Group and Zetters Group, the football pools and bingo clubs operator. The former jumped 10½ to 300½p with a big buyer said to have been active in the stock early in the day, while the latter added 7½ to 131p.

Dealers were expecting strong buying today in the drinks sector after the chancellor left duty on alcoholic drinks unchanged. Bass rose 13½ to 900½p, while Scottish & Newcastle put on 11½ to 705½p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Mar 9	Mar 8	Mar 5	Mar 4	Mar 3	Yr ago	*High	*Low
FT 30	3775.5	3770.9	3767.8	3742.3	3728.3	3682.1	4064.9	2799.6
Ord. div yield	2.74	2.75	2.76	2.78	2.80	2.98	4.22	2.72
P/E ratio net	23.13	23.09	23.02	22.82	22.63	22.78	26.41	15.80
P/E ratio nil	23.06	23.02	22.95	22.76	22.57	22.57	26.19	15.71

FT 30 since compilation: high 4064.9 7/1/99; low 49.4 26/6/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3779.9	3799.1	3779.2	3768.2	3764.2	3760.2	3762.5	3775.5	3807.0	3758.4

STOCK MARKET TRADING DATA

	Mar 9	Mar 8	Mar 5	Mar 4	Mar 3	Yr ago
SEAQ bargains	82,675	86,250	89,415	77,606	73,015	n/a
Equity turnover (£m)†	-	-	-	3693.4	3909.9	n/a
Equity bargains†	-	-	-	61,246	61,523	n/a
Shares traded (mil)†	-	-	-	925.7	982.7	n/a
Total market bargains†	-	86,122	85,917	76,049	73,231	-
Total turnover (£m)†	-	4867.2	5675.5	4904.7	4953.0	-
Total shs traded (mil)†	997.7	1133.0	1263.9	1172.8	1171.2	-
Tradepoint turnover (£m)	29.5	25.0	29.5	22.4	20.9	50.2
Tradepoint shs. traded(mil)	10.4	10.6	12.4	10.4	9.9	9.6

†Excluding intra-market and overseas turnover but including Dealt turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	880	Total Highs	84	Total contracts	[illegible]
Total Falls	648	Total Lows	52	Calls	14,852
Same	1,327			Puts	18,978

*Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6260.0	6243.0	+22.0	6300.0	6196.0	30109	160830
Jun	6305.0	6284.0	+22.0	6342.0	6246.0	9104	42912
Sep		6329.0	+25.0			0	[illegible]

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		5363.0	+17.0			0	2299
Jun		5372.0	+17.0			0	1367

FTSE 100 INDEX OPTION (LIFFE) (*6237) £10 per full index point

	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P
Mar	234½	36½	186	47½	159½	61½	121½	78½	91½	100½	66	128	49	156	32	182
Apr	301	121½	269½	136½	231	154½	231	175½	262½	197	172½	213½	159½	245½	128	275
Jun	419	193	379½	214	346½	234	318	254	287½	273	257	297	229	315	202½	342
Sep	473	249	443	265	413	287	382	306	359	325	328	344½	303	365	276½	382
Dec†			774	507			706½	543			647	580			[illegible]	[illegible]

Calls 674 Puts 1,042

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P	6325 C	6325 P	6375 C	6375 P	6425 C	6425 P
Mar	205½	42	171½	54½	137½	70½	106	88	87	114	58½	141½	41	174	26½	209
Apr	303½	124½	268½	140½	236	158½	210½	180½	187	207	158	227½	132	258	109½	278½
May	302½	202½	359½	217½	327½	235½	297½	255½	266½	276½	241	299	218	323	188½	348½
Jun			426½	271			365	308			309½	345			286	386
Sep†			596½	385½			530½	429½			468½	465½			468½	508½

Calls 7,035 Puts 10,316 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	15.0	100	30	Close Bros Dev VCT	100		-	-	-	-
-	F.P.	80.3	100½	98½	Enhanced Zero Tst	100½		-	-	-	-
•	F.P.	35.5	8	7	Gander Properties	7½		-	-	-	-
§100	F.P.	47.7	100½	94½	Jupiter Enhanced	100	+1	-	-	-	-
§100	F.P.	47.7	110	103½	Do Zero Div Prf	107½		-	-	-	-
-	F.P.	-	380	275	Luminar Warrants	277½	-2½	-	-	-	-
-	F.P.	5.98	110½	107½	NWA Quantum	110		-	-	-	11.2
-	F.P.	13.1	137	33½	[illegible]	118	+36½	-	-	-	-
-	F.P.	-	142½	125	Syndax	128	-3	-	-	-	31.5

‡ Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
10	Nil	18/3	1½pm	1pm	Bruncode	1½pm	
15	Nil	26/3	[illegible]	2pm	[illegible]	4½pm	-1½
78	Nil	10/3	25pm	13pm	Peptide Therapeutics	20pm	+2½

pm Premium.

FTSE GOLD MINES INDEX

	Mar 9	% chg on day	Mar 8	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	941.35	3.0	913.78	1078.84	1.35	948.73	1391.57	701.57
Regional Indices								
Africa (8)	1047.08	1.5	1031.61	1034.24	3.95	1064.10	1488.04	785.83
Australasia (9)	1104.90	0.0	1104.72	1294.89	2.74	1117.88	1809.53	815.90
Americas (11)	832.39	4.5	[illegible]	1060.08	0.82	885.35	1317.41	647.80

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Mar 9	Day's chge%	Euro Index	£ Stg Mar 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6237.7	+0.5	7208.0	6205.8	5828.5	[illegible]	2.27	1.52	25.53	35.38	2777.70
FTSE 250	5375.7	+0.3	6212.0	5359.2	5286.8	3.10	2.75	2.05	19.60	20.03	2347.65
FTSE 250 ex Inv Tr	5410.6	+0.2	6252.2	5397.5	5320.9	3.22	2.86	2.13	18.21	19.51	2373.08
FTSE 350	2959.5	+0.4	3419.9	2946.8	2788.7	[illegible]	2.35	1.95	24.39	15.90	2693.08
FTSE 350 ex Inv Tr	2966.9	+0.4	3428.5	2954.3	2793.4	2.64	2.36	1.96	24.15	16.02	1384.90
FTSE 350 Higher Yield	2789.5	----	3223.5	2769.3	2762.7	[illegible]	3.17	1.80	19.32	18.15	2162.13
FTSE 350 Lower Yield	3136.5	+0.8	3624.4	3110.3	2831.7	1.67	1.52	2.26	33.07	13.27	2306.55
FTSE SmallCap	[illegible]	+0.3	2684.13	2315.78	2511.04	3.48	2.93	2.02	17.77	8.21	2059.98
FTSE SmallCap ex Inv Tr	2289.83	+0.2	2646.04	2285.72	2501.58	3.69	3.12	2.14	15.84	8.72	2053.50
FTSE All-Share	2861.13	+0.4	3306.22	2848.79	2715.64	2.67	2.37	1.95	23.97	15.19	2642.34
FTSE All-Share ex Inv Tr	2872.52	+0.4	3319.38	2860.64	2722.88	2.69	2.39	1.97	23.64	15.33	1365.03
FTSE Fledgling	1266.54	+0.4	1463.56	1261.59	1369.84	3.88	3.21	1.42	22.69	4.21	1431.12
FTSE Fledgling ex Inv Tr	1276.99	+0.3	1475.94	1273.62	1391.16	4.43	3.66	1.47	19.16	4.47	1451.23
FTSE All-Small	1315.91	+0.3	1520.62	1311.69	1422.80	3.57	2.99	[illegible]	18.61	5.04	1489.59
FTSE All-Small ex Inv Tr	1322.34	-0.2	1528.05	1319.75	1443.71	3.84	3.22	1.99	16.41	4.95	1506.10
FTSE AIM	840.3	+0.1	971.0	839.7	1015.8	1.31	1.09	30.00†	0.12	0.88	782.34

FTSE Actuaries Industry Sectors

	£ Stg Mar 9	Day's chge%	Euro Index	£ Stg Mar 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	4270.61	+0.1	4934.96	4264.31	4555.39	3.31	2.88	1.11	33.93	20.05	2002.85
12 Extractive Industries(9)	3155.66	+0.6	3646.57	3135.92	3328.63	4.05	3.77	2.01	15.39	14.72	1022.84
15 Oil, Integrated(3)	4947.77	+0.2	5717.46	4940.16	4998.81	3.22	2.88	1.03	37.68	23.15	2385.84
16 Oil Exploration & Prod(6)	1514.78	-1.5	1750.43	1538.49	3319.30	3.68	3.21	0.17	80.00†	7.97	953.61
20 GEN INDUSTRIALS(180)	1948.10	+0.4	[illegible]	1940.01	2171.48	3.58	3.23	[illegible]	14.84	11.18	1173.01
21 Construction(37)	1419.52	+0.1	1640.35	1418.36	1544.81	3.48	2.96	3.24	11.11	6.10	1290.68
22 Building Matls & Merchs(29)	1689.46	+0.1	1952.28	1687.02	1895.26	4.40	3.92	2.16	13.19	0.42	942.64
23 Chemicals(20)	1925.68	+0.4	2225.24	1918.21	2806.05	4.99	4.76	1.61	15.51	35.79	1020.24
24 Diversified Industrials(4)	1010.01	-0.5	1167.13	1015.49	1478.61	6.49	5.22	1.08	17.88	5.26	644.25
25 Electronic & Elect Equip(26)	3012.12	+0.5	3480.69	2996.07	2342.75	2.54	2.17	2.00	24.69	16.02	1697.95
26 Engineering(53)	2454.20	+0.7	2835.99	2436.52	2933.48	3.42	3.08	2.38	15.37	11.14	1623.21
27 Engineering, Vehicles(10)	4434.79	-0.3	5113.12	4438.82	3901.49	2.09	1.93	4.40	13.58	3.72	2467.73
28 Paper, Pckg & Printing(17)	1692.12	+0.9	1955.36	1677.60	2206.57	6.32	5.92	2.36	8.74	25.92	793.66
30 CONSUMER GOODS(81)	6109.77	+0.6	[illegible]	6074.20	[illegible]	2.22	2.09	[illegible]	29.61	28.99	2455.50
32 Alcoholic Beverages(5)	3900.74	-1.2	4507.55	3948.35	3851.74	3.17	2.95	2.13	18.54	0.34	1583.88
33 Food Producers(22)	3476.41	----	4017.21	3475.22	3882.41	[illegible]	2.41	2.14	22.04	16.92	1712.38
34 Household Goods & Textls(13)	2180.37	-2.8	[illegible]	2244.03	3346.48	4.68	4.33	[illegible]	13.35	5.05	938.36
36 Health Care(14)	2522.22	+0.9	2914.58	2500.65	2310.65	2.12	1.90	1.98	29.71	2.36	1630.51
37 Pharmaceuticals(20)	11042.71	+1.5	12760.54	10875.78	10033.00	1.69	1.54	1.81	43.31	71.49	4005.50
38 Tobacco(3)	7194.51	-2.3	8313.71	7365.19	5370.60	4.44	4.17	[illegible]	19.28	0.00	2049.99
40 SERVICES(281)	3944.40	+0.7	4558.00	3918.20	3197.35	2.16	1.81	2.11	27.47	7.58	2198.89
41 Distributors(25)	1939.61	+0.9	2241.34	[illegible]	2740.32	4.71	4.07	2.06	12.92	3.71	780.28
42 Leisure & Hotels(31)	3897.39	+2.0	4503.69	3822.35	3667.80	2.36	2.13	3.03	18.27	24.27	2243.19
43 Media(43)	5450.58	+0.9	6298.49	5401.72	4366.20	[illegible]	1.64	2.16	31.42	7.72	2086.41
44 Retailers, Food(13)	2436.96	-0.3	2816.07	2445.23	2889.56	3.74	3.01	2.16	15.46	4.47	1683.44
45 Retailers, General(41)	2358.75	----	2725.69	2358.96	2365.81	3.17	2.55	2.07	19.02	5.99	1483.46
46 Telecommunications(7)	6322.76	+0.7	7308.34	6277.20	3382.53	1.42	1.16	1.64	53.58	4.51	3119.04
47 Breweries, Pubs & Rest.(23)	3808.72	+0.6	4401.23	3785.78	3966.42	3.31	2.68	2.20	17.20	16.56	1385.60
48 Support Services(60)	5192.25	+1.8	5999.97	5099.23	4329.25	1.19	1.07	2.86	36.82	3.43	3443.68
49 Transport(25)	3589.31	-0.6	4148.36	3612.27	3298.13	2.89	2.48	1.98	21.80	12.87	1626.76
60 UTILITIES(20)	3853.24	-1.3	4452.66	3903.60	[illegible]	4.03	3.49	1.84	16.86	11.51	[illegible]
62 Electricity(7)	4298.44	-1.2	4967.12	4350.21	4057.26	4.49	3.71	1.31	21.34	9.64	2573.43
64 Gas Distribution(2)	3167.86	+0.6	3660.44	3148.30	2717.23	1.99	1.77	2.71	23.30	0.00	1846.44
68 Water(11)	3136.38	-3.5	3624.26	3248.83	3173.83	5.35	4.93	2.35	9.94	24.10	1991.96
69 NON-FINANCIALS(509)	2902.00	+0.4	3353.44	2890.03	2880.72	[illegible]	[illegible]	1.91	24.89	10.22	2403.46
70 FINANCIALS(120)	5578.77	+0.4	6446.62	5555.51	5705.01	2.85	2.57	2.13	20.57	59.81	2641.19
71 Banks, Retail(12)	8609.00	+0.5	9948.24	8564.79	8283.39	2.85	2.54	2.23	19.70	125.51	3098.43
73 Insurance(21)	2361.82	-0.2	2729.23	2367.17	2733.63	2.91	2.77	2.06	20.81	18.23	1983.95
74 Life Assurance(6)	7013.86	+0.2	8104.95	7002.55	7467.83	2.70	2.56	1.95	23.71	11.74	3167.07
77 Other Financial(31)	4121.82	+0.1	4763.02	4119.34	4541.74	2.60	2.25	2.10	22.88	9.27	2562.16
79 Property(48)	1905.98	+1.6	2202.48	1876.51	2380.40	3.33	2.88	1.68	22.41	6.57	1274.77
80 INVESTMENT TRUSTS(117)	3821.42	+1.1	4415.89	3779.20	3800.76	2.21	1.85	1.16	49.00	16.35	1411.85
89 FTSE All-Share(826)	[illegible]	+0.4	3306.22	2848.79	2715.64	2.67	2.37	1.95	23.97	15.19	2642.34
105 FTSE All-Share ex Inv Tr(709)	2872.52	+0.4	3319.38	2860.64	2722.88	[illegible]	[illegible]	[illegible]	23.64	15.33	1365.03
Information Technology	1833.73	+1.4	2118.98	1808.72	1379.83	0.58	0.44	4.83	51.85	1.44	1844.89

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6220.5	6269.2	6243.8	6229.1	6207.7	6210.0	6215.3	6237.5	6287.3	6198.9
FTSE 250	5360.8	5365.3	5369.0	5369.6	5371.6	5370.3	5370.0	5374.3	5378.3	5360.6
FTSE 350	2951.4	2971.3	2961.4	2955.6	2947.2	2948.0	2950.1	2959.3	2978.4	2943.1
FTSE SmallCap	2320.45	[illegible]	2321.08	2321.06	2321.50	2322.46	2321.22	2322.54	2322.85	2318.63
FTSE All-Share	2853.46	2871.87	2862.79	2857.41	2849.66	2850.48	2852.35	2860.93	2878.40	2845.94

Time of FTSE 100 Day's high: 9:37:45 Day's low: 13:38:45. FTSE 100 1998/99 high: 6307.8 (24/02/99) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:39:00 Day's low: 13:39:00 FTSE All-Share 1998/99 High: 2885.29 (20/07/98) Low: 2106.07 (05/10/98)
Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price*	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituents.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 9) 1 € = 13.7603 Sch

BELGIUM/LUX (Mar 9) 1 € = 40.3399 Frs.

FINLAND (Mar 9) 1 € = 5.94573 Mka

FRANCE (Mar 9) 1 € = 6.55957 Frs

GERMANY (Mar 9) 1 € = 1.95583 Dm.

IRELAND (Mar 9) 1 € = 0.78756 Punt

ITALY (Mar 9) 1 € = 1936.27000 Lire

NETHERLANDS (Mar 9) 1 € = 2.20371 Fl.

PORTUGAL (Mar 9) 1 € = 200.482 Esc.

SPAIN (Mar 9) 1 € = 166.386 Pts.

EUROPE (NON-EMU)

CZECH REP (Mar 9 / Koruna)

DENMARK (Mar 9 / Kr)

GREECE (Mar 9 / Drachma)

NORWAY (Mar 9 / Kroner)

POLAND (Mar 9 / Zloty)

SWEDEN (Mar 9 / Kronor)

SWITZERLAND (Mar 9 / Frs.)

TURKEY (Mar 9 / Tk. Lira)

PACIFIC

JAPAN (Mar 9 / Yen)

HONG KONG (Mar 9 / H.K.$)

INDONESIA (Mar 9 / Rupiah)

MALAYSIA (Mar 9 / MYR)

NEW ZEALAND (Mar 9 / NZ $)

SINGAPORE (Mar 9 / S$)

AUSTRALIA (Mar 9 / Aus$)

SOUTH KOREA (Mar 9 / Won)

TAIWAN (Mar 9 / TW $)

THAILAND (Mar 9 / Baht)

AMERICAS

CANADA

TORONTO (Mar 9 / Can $) 4 pm close

MONTREAL (Mar 9 / Can $) 4 pm close

MEXICO (Mar 9 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Mar 9 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MARCH 8 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MARCH 5 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	211.22	1.4	194.78	162.78	223.49	222.81	1.0	3.39	208.39	191.96	161.08	221.15	220.59	219.96	163.86	207.85
Austria (21)	182.16	1.2	167.99	140.39	170.08	170.08	0.9	1.97	180.05	165.85	139.16	168.60	168.60	253.73	165.27	204.16
Belgium (22)	376.07	-0.6	348.79	289.83	343.78	343.78	-0.8	1.96	378.14	348.32	292.26	346.69	346.89	446.95	283.73	283.73
Brazil (29)	110.73	2.5	102.11	85.34	117.17	401.53	1.9	5.78	108.08	99.55	83.53	114.70	393.90	269.34	89.32	248.48
Canada (113)	204.44	1.4	188.53	157.56	218.32	224.17	1.3	1.78	201.56	185.88	155.80	213.93	221.22	248.78	159.94	230.70
Denmark (34)	425.19	-1.1	392.10	327.70	449.91	395.01	-1.3	1.77	429.84	395.94	332.22	456.16	400.35	537.39	420.12	456.85
Finland (29)	636.89	0.9	587.13	490.70	730.03	730.03	0.6	1.55	631.27	581.48	487.90	725.95	725.95	661.25	338.49	346.01
France (74)	317.41	0.2	292.70	244.63	300.11	300.11	-0.1	2.05	316.81	291.82	244.86	300.43	300.43	354.45	253.86	289.79
Germany (55)	246.77	-0.7	227.56	190.19	230.57	230.57	-1.0	1.68	248.42	228.83	192.00	232.80	232.80	325.61	228.35	250.65
Greece (36)	398.13	2.7	367.14	305.84	421.27	843.88	2.4	1.01	387.53	356.96	299.51	411.26	823.82	429.65	211.47	-
Hong Kong, China (66)	297.41	1.1	274.28	229.22	314.70	295.87	1.1	4.06	294.18	270.98	227.37	312.20	292.65	362.52	198.84	342.51
Indonesia (24)	45.13	-1.5	41.62	34.78	47.76	247.11	-1.1	1.18	45.82	42.20	35.41	48.62	249.73	64.52	19.04	45.81
Ireland (14)	535.74	0.0	494.04	412.89	546.30	546.30	-0.2	1.84	535.50	493.26	413.88	547.67	547.67	605.85	396.15	480.72
Italy (53)	167.08	-1.2	154.07	128.77	222.01	222.01	-1.5	1.46	169.06	155.73	130.67	225.31	225.31	182.84	128.62	141.82
Japan (445)	98.15	0.3	90.51	75.64	103.85	75.64	0.0	0.88	97.84	90.12	75.62	103.83	75.62	104.84	76.83	104.64
Mexico (29)	1307.28	3.3	1205.53	1007.53	1383.27	14074.47	3.1	1.82	1265.37	1165.56	977.98	1342.85	13644.63	1733.73	787.15	1607.53
Netherlands (26)	480.77	-0.4	443.35	370.59	444.35	444.35	-0.7	2.16	482.66	444.59	373.04	447.40	447.40	562.73	394.92	482.30
New Zealand (18)	64.42	0.5	59.41	49.65	68.17	64.27	0.2	4.39	64.06	59.03	49.53	68.01	64.16	77.84	45.68	75.58
Norway (37)	230.61	-0.6	212.66	177.73	244.01	246.45	-1.0	1.95	232.05	213.74	179.34	246.26	248.93	357.71	181.08	314.37
Philippines (22)	89.66	1.4	82.69	69.10	94.88	173.82	0.8	0.94	88.38	81.41	68.31	93.79	172.44	106.98	42.48	93.66
Portugal (18)	238.21	-0.1	219.66	183.59	300.38	300.36	-0.4	1.09	238.53	219.72	184.35	301.65	301.65	299.39	194.13	-
Singapore (40)	207.69	0.0	191.53	160.07	219.77	165.44	0.1	1.65	207.61	191.23	160.46	220.32	165.27	246.74	102.45	208.12
South Africa (34)	202.62	0.9	186.85	156.16	214.38	274.59	0.7	3.44	200.89	185.05	155.27	213.19	272.67	346.20	151.55	272.41
Spain (30)	373.03	-1.1	344.00	287.50	432.07	432.07	-1.4	1.60	377.32	347.56	291.62	438.32	438.32	435.19	290.81	340.08
Sweden (43)	512.79	-1.0	472.88	395.21	542.60	623.93	-1.1	1.98	517.76	476.92	400.17	549.47	630.86	628.19	379.18	524.40
Switzerland (30)	393.87	-0.2	363.21	303.55	416.76	357.46	-0.4	1.20	394.73	363.60	305.08	418.90	359.07	441.65	307.73	381.95
Thailand (31)	21.60	2.8	19.91	16.64	22.85	31.15	2.0	2.89	21.00	19.34	16.23	22.28	30.54	33.84	8.15	30.46
United Kingdom (202)	388.38	0.0	358.15	299.33	410.96	358.15	0.1	2.88	388.31	357.68	300.12	412.09	357.68	401.84	307.96	369.50
USA (612)	529.17	0.6	487.98	407.83	559.93	529.17	0.6	1.25	526.14	484.64	406.65	558.38	526.14	529.17	390.12	490.85
Americas (783)	469.13	0.6	432.62	361.56	496.40	398.38	0.6	1.29	468.22	429.45	360.33	494.77	395.94	469.13	347.59	390.58
Europe (724)	348.92	-0.3	321.76	268.91	369.20	333.82	-0.4	2.05	349.81	322.22	270.36	371.23	335.25	386.24	282.63	325.12
Eurobloc (342)	98.37	-0.4	90.71	75.81	99.47	99.47	-0.7	1.81	98.79	91.00	76.35	100.19	100.19	113.92	81.53	-
Nordic (143)	494.97	-0.4	456.44	381.47	523.74	520.35	-0.7	1.82	497.17	457.95	384.26	527.82	523.79	555.97	380.04	455.76
Pacific Basin (721)	106.31	0.5	98.04	81.93	112.49	84.10	0.2	1.51	105.80	97.46	81.77	112.28	83.91	114.16	82.88	114.16
Euro-Pacific (1445)	207.13	0.0	191.01	159.64	219.17	177.92	-0.2	1.90	207.22	190.88	160.16	219.91	178.31	221.79	186.00	202.14
North America (725)	507.08	0.6	467.61	390.81	538.56	508.07	0.6	1.27	504.04	464.29	389.56	534.91	505.04	507.08	374.92	418.10
Europe Ex. UK (522)	318.46	-0.4	293.67	245.44	336.97	312.30	-0.7	1.72	319.74	294.52	247.12	339.32	314.43	366.32	260.93	293.80
Europe Ex. Eurobloc (382)	97.78	-0.1	90.17	75.36	103.46	100.38	-0.1	2.29	97.86	90.14	75.63	103.85	100.46	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (180)	95.26	-0.3	87.85	73.42	100.80	96.03	-0.5	1.43	95.58	88.03	73.86	101.42	96.54	109.21	75.16	-
Pacific Ex. Japan (276)	183.82	1.1	169.52	141.67	194.51	188.40	0.9	3.49	181.81	167.47	140.52	192.95	186.67	216.04	128.26	201.36
World Ex. Eurobloc (1920)	107.66	0.5	99.28	82.97	113.91	107.50	0.4	1.51	107.15	98.69	82.81	113.71	107.03	108.05	83.09	-
World Ex. US (1650)	206.81	0.1	190.71	159.39	218.83	183.05	-0.1	1.92	206.69	190.39	159.75	219.34	183.26	221.91	165.95	205.59
World Ex. UK (2060)	303.21	0.4	279.61	233.68	320.83	275.68	0.3	1.42	302.07	278.25	233.47	320.57	274.92	311.48	236.11	269.50
World Ex. Japan (1817)	416.11	0.3	383.72	320.70	440.30	412.32	0.3	1.62	414.66	381.98	320.51	440.09	411.15	427.98	320.58	364.56
The World Index (2262)	310.55	0.3	286.38	239.34	328.60	283.25	0.3	1.55	309.50	285.09	239.21	328.45	282.51	318.51	242.36	277.97

 CONSTITUENT CHANGES WITH EFFECT [illegible]: Deletion: SA Breweries (UK) (Medium SmallCap). Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Mar 8

Market
Latin America
Argentina
Brazil
Chile
Colombia
Mexico
Peru
Venezuela
East Asia
China
India
Indonesia
Korea
Malaysia
Pakistan
Philippines
Sri Lanka
Taiwan, China
Thailand
Europe
Czech Rep
Greece
Hungary
Poland
Portugal
Russia
Slovakia
Turkey
Mideast/Africa
Egypt
Israel
Jordan
Morocco
S Africa
Zimbabwe
Regions
Composite
Latin America
Asia
EMEA
Europe
Eastn Europe
ME & Africa
Comp + Malay
Asia + Malay

Prices supplied by Financial Times Information.

& FT Free Annual Reports Club

4 pm close March 9

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Price	Chng Prev Close
63	33¼	Xerox x	0.80	1.4	22	22620	57⅝	55¼	55⅝	-2⅜
83⅞	58 9/16	YPF Cap	1.76	3.0	9	2106	60⅝	58⅞	59 1/16	-1⅜
66 1/16	37½	Yio Corp			10	212	39⅞	39⅜	39¾	+½
31 1/16	22½	Yankee Egy x	1.38	5.5	22	95	25¼	25	25	
52¾	27½	York Inl	0.48	1.3	10	907	36¼	35⅞	35 13/16	-⅞
24 13/16	6⅝	Zapata			3	882	8½	8⅛	8 7/16	-⅛
50	31	Zeneca	0.80	1.9	32	6402	41½	40⅞	41¼	+⅞
30½	20 7/16	Zenith Nat	1.00	3.9	19	31	25⅝	25 7/16	25⅝	+1/16
8 1/16	5 3/16	Zero Inc	0.67	11.3		110	6 1/16	5 13/16	5 15/16	
14 11/16	8⅞	ZwegFd	1.08	10.4		589	10½	10⅜	10⅜	+1/16
9 1/16	8 1/16	Zweig Totl x	0.84	10.1		898	8¾	8 5/16	8¾	

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 8	Mar 5	Mar 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9727.61	9736.08	9467.40	9736.08 (5/3/99)	7539.07 (31/8/98)	9736.08 (5/3/99)	41.22 (8/7/32)
Home Bonds	104.44	104.36†	104.05	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3288.40	3312.79	3255.18	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	299.23	301.51	297.11	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9825.02(9788.92) Low 9616.33 (9558.41) (Theoretical♦)
Day's high 9764.80(9738.79) Low 9674.33 (9467.67) (Actual♦)

Standard and Poors	Mar 8	Mar 5	Mar 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1282.73	1275.47	1246.64	1282.73 (8/3/99)	927.69 (9/1/98)	1282.73 (8/3/99)	4.40 (1/6/32)
Industrials¶	1540.57	1527.93	1492.81	1551.65 (29/1/99)	1077.40 (9/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial¶	140.04	140.50	137.33	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	604.10	603.14	590.75	611.06 (8/1/99)	477.20 (8/10/98)	611.06 (8/1/99)	4.64 (25/4/42)
Amex Comp	712.18	707.41	698.52	753.67 (22/4/98)	553.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2397.62	2337.11	2292.89	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	400.08	398.01	394.02	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 5	Feb 26	Feb 19	Year ago
Dow Jones Ind. Div. Yield	1.59	1.67	1.63	
	Mar 3	Feb 24	Feb 17	Year ago
S & P Ind. Div. yield	1.17	1.14	1.19	1.39
S & P Ind. P/E ratio	38.32	38.67	37.72	28.76

US DATA

MARKET ACTIVITY

● Volume (million)

	Mar 8	Mar 5	Mar 4
NYSE	714.630	834.950	774.802
Amex	22.942	36.038	24.716
NASDAQ	976.865	864.844	887.654

NYSE	Mar 8	Mar 5	Mar 4
Issues Traded	3,537	3,540	3,496
Rises	1,359	2,065	1,710
Falls	1,595	916	1,186
Unchanged	583	559	600
New Highs	61	83	29
New Lows	55	40	86

NYSE TRADING ACTIVITY

Volume : 714,630,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Compaq	20,030,500	34⅛	+⅛
AmOnLine	10,956,100	90⅝	+4⅛
AllWstnd	8,871,400	16⅞	+1⅞
AT&T	7,525,900	88	+¾
MicrnTech	6,064,900	58¼	−3⅞
LucentTch	6,021,200	107½	+3¾
GenElec	5,853,400	104⅞	+1⅛
Ctgrp	5,776,000	62¼	+¼
Merck	5,771,300	82⅞	+¾
PhMorr	4,967,800	39⅝	−⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
AllWstnd	16⅞	+1⅞	+12.9
CarterWal	19	+2¼	+12.2
AmBldns	52	+5⅝	+12.1
BrFerr	38⅝	+4⅛	+11.9
UnPcRs	10¾	+1	+10.1
Selectron	47⅛	+4¾	+10.1
Downs			
Pulte	23¾	−1⅝	−6.5
Unova	13½	−1	−6.5

NASDAQ TRADING ACTIVITY

Volume :976,865,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellCmp	45,558,800	45⅝	+2⅜
Novell	29,642,000	23¾	+3¾
Oracle	19,616,900	38¾	+⅝
Intel	18,306,800	119⅝	+5
CiscoSys	13,808,700	104¾	+3⅛
MicsR	11,486,000	159	+4¾
3Com	11,022,700	25½	+⅛
ParamT	10,937,900	17½	+2½
MCIWcm	10,181,800	85¼	+2⅛
LevOne	9,198,500	47⅛	+2⅛

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
CMG Info	[illegible]	[illegible]	[illegible]
CNET	[illegible]	[illegible]	[illegible]
e.spire Co	[illegible]	[illegible]	[illegible]
AdvEngyInd	[illegible]	[illegible]	[illegible]
CnxSys	[illegible]	[illegible]	[illegible]
Pbdmcs	[illegible]	[illegible]	[illegible]
Downs			
CBT ADR	[illegible]	[illegible]	[illegible]
800-JR Cig	[illegible]	[illegible]	[illegible]

Dow Jones

FTSE Eurotop 300

JAPAN

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1283.20	1279.20	−4.10	1285.80	1276.80	102,416	281,900
Jun	−	1295.80	−	−	−	32,712	131,419

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14950.0	15080.0	+310.0	15120.0	14870.0	37,747	117,288
Jun	14870.0	15050.0	+340.0	15050.0	14820.0	9,627	117,038

Open interest figures for previous day.

CAC-40, DAX, OMX, EUREX: [illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 9

[illegible]

AMEX

4 pm close March 9

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Equities struggle after sell-off in bonds

WORLD OVERVIEW

A renewed burst of selling in bond markets overshadowed trading in equities yesterday, reversing initial gains in Europe and sparking early profit-taking in the US, *writes Jeffrey Brown.*

A round of unexpectedly solid European data was the main focus for bond investors, notably the German unemployment figures for February, which tipped lower to confound analysts' forecasts for the second month running.

Backed by another upbeat French consumer confidence index, the data allowed germinating theories about an end to the downswing for euro-zone interest rates to put down even deeper roots.

The sell-off for bonds lifted 10-year German yields to 4.2 per cent, against the 3.6 per cent of late January. Much of the selling was said to be futures-related, but even so it ruffled sentiment in equities and most markets ended lower in volatile trading.

Frankfurt gave up 0.2 per cent and similar falls could be traced right across the main centres, with the benchmark CAC-40 index in Paris swinging between plus 50 points and minus 16.

Helsinki, buoyed by technology giant Nokia, which consistently accounts for 60 per cent of daily trading volume in Finnish equities, managed to notch up a further record high. But yesterday's broad trend – not helped by a London market on hold ahead of the UK Budget – did nothing to dispel the suspicion that investors are still no closer to finding fresh direction.

In a sense, the big share price event of the day was in Tokyo, where Sony surged almost 9 per cent after announcing radical restructuring, involving the loss of 17,000 jobs worldwide. In a market made moribund by political and corporate indecision, the news was seen as a landmark.

Tokyo rallied 2.2 per cent, a pattern that helped lift Hong Kong, which gained 2.6 per cent in spite of a resurgence of talk about a Chinese devaluation.

The renminbi wobbled and took a number of neighbouring currencies with it, notably the Filipino peso. The Manila share market came off 1.5 per cent.

In recent months, volatility among emerging markets has risen to unprecedented levels, keeping many international fund managers firmly at bay. But Morgan Stanley Dean Witters claims to have picked up on an encouraging trend for the sector.

According to Robert Pelosky of Morgan's emerging market team, volatility shows clear signs of peaking, which could bode well for broad emerging market equity returns over the next 12 months.

Wall Street climbs after sluggish start

AMERICAS

A series of new deals sent Wall Street climbing by midday, as the overall tone of trading picked up after a sluggish start, *writes John Labate in New York.*

The Dow Jones Industrial Average turned sharply higher shortly before noon, gaining 55.78 or 0.57 per cent at midday at 9,783.39.

IBM rose $4⅜ to $184, but Walt Disney gave up $1⅞ at $35⅛ after Goldman Sachs lowered its earnings per share estimates for the entertainment company's earnings for 1999 and 2000.

The broader market was higher as well. The Standard & Poor's 500 index climbed 8.91 to 1,291.64. The strongest performer was the Nasdaq composite index, weighted in high-tech shares, which was up 28.52 or 1.2 per cent to 2,426.14.

In the internet sector, Lycos surged more than 16 per cent or $14 to $97⅞ after a battle for control of the online search engine emerged. Lycos board member David Wetherell, who is also head of marketing firm CMGI, resigned and vowed to fight for new terms in the takeover of Lycos by USA Networks. The move sent shares of CMGI up $17⅜ or more than 8 per cent to $217⅞.

Other internet stocks were higher, including online bookseller Amazon.com, up 8 per cent to $132 after a report that it had filed a suit against leading retailer Wal-Mart.

Online investing company E*Trade surged 8 per cent or $3⅝ to $50⅛ after Volpe Brown started coverage with a "buy" rating.

Other online traders were up as well, with Siebert Financial up $4⅝ or more than 20 per cent to $27⅞.

Shares of RJR Nabisco surged $1⅞ or more than 6.5 per cent to $30⅝ after the sale of its international tobacco business for $8bn to Japan Tobacco. The deal helped send shares of Philip Morris, a Dow member stock and believed to be one of the bidders for the RJR unit, up $1⅛ to $40⅜.

Alaska Air fell $⅞ to $51⅞ despite a raised rating by Gruntal to "buy" from "hold".

American Home Products gained $1⅜ to $62⅞ after Merrill Lynch raised its rating to "near-term accumulate" from "neutral".

The Russell 2000 index of small-company shares was up 2.09 at 402.15.

TORONTO was little changed in early trading with sentiment held in check by a weak start for energy stocks and a profits warning from metals leader Alcan Aluminium.

Alcan tumbled C$1.40 to C$36.25 after the company announced that its first-quarter earnings would be lower than expected. As a result, the 300 composite index was up 4.27 at 6,507.70 at noon.

Oils were also dull. Responding to renewed weakness for international oil prices, Imperial Oil lost 75 cents at C$25.70.

In telecoms, Northern Telecom shed 90 cents at C$88.40.

Golds were a firm feature. Among leaders, Barrick added 60 cents at C$29.45 and Placer Dome put on 75 cents at C$19.40.

Banks were relatively subdued. Bank of Montreal eased 10 cents to C$64.10 and Canadian Imperial gave up a similar figure at C$37.

Zurich rises as rate fears fade

EUROPE

Shares in **ZURICH** put their recent consolidation behind them as receding worries about the outlook for interest rates and some technical factors sent the market 1.1 per cent higher. The SMI index put on 81.3 to 7,267.2.

Banks were at the centre of attention with UBS gaining SFr12 to SFr487 and CS Group SFr10 to SFr253. Analysts saw a price target of SFr290-SFr340 after the share broke out of its recent range.

Baer jumped SFr101 to SFr4,721 after the private bank said it would launch another share buy-back scheme at the end of March.

Insurer Zurich Allied lost SFr25 francs to SFr930 after announcing that pre-tax restructuring costs were $1bn higher than expected.

Roche certificates gave up early gains to close SFr70 lower at SFr18,370 ahead of 1998 results published after the market closed. Its 3 per cent rise in net profit proved in line with expectations.

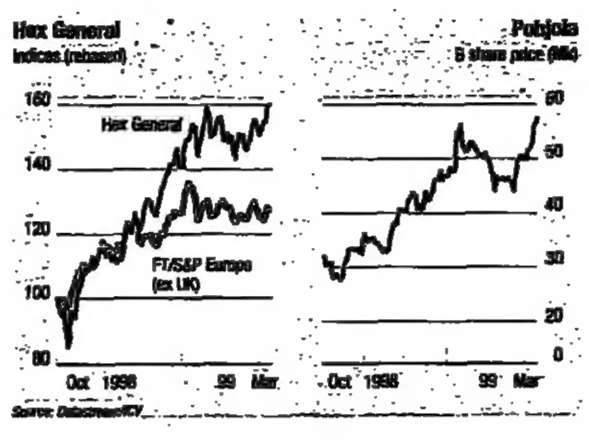
Ares Serono turned back from a high of SFr2,240 and closed SFr60 lower at SFr2,140 in spite of reporting 1998 profits at the upper end of expectations. Ciba slipped SFr1 to SFr109.50 after Monday's rise. ABB rose SFr67 to SFr1,841 after the stock broke through technical resistance at SFr1,820.

FRANKFURT ended a volatile session with the Xetra Dax index off 0.96 at 4,790.47 after touching 4,869.47 in early trading.

A downbeat trading statement from Adidas, warning of flat sales in the US and Europe, sent the sports shoe group down €5.05 at €79.95. HypoVereinsbank rose €1.15 at €52 after an upgrade from sell to hold by BHF Bank.

Better than expected results from Bayer and plans for a 10 per cent share buy-back, left the stock up 33 cents at €32.88. BASF ended 17 cents ahead at €31.32 in spite of company warnings of a difficult year to come.

AMSTERDAM shed 3.25 at 522.27 on the AEX index with retailer Ahold leading the way down with a decline of 2.8 per cent. Ahold's results were disappointing to the extent that they were right on target. News of a $1.75bn US takeover also unsettled sentiment sparking talk of a share issue to finance the deal. The stock lost 95 cents at €32.55.



Hoogovens dipped to €27.20 before closing all square at €27.60 after an upgrade to neutral at Salomon Smith Barney which lifted its target price for the steel leader to €30.

Wolters Kluwer and Elsevier, which report tomorrow, moved in opposite directions. Kluwer added €1.55 at €176 but Elsevier shed 5 cents at €13.95.

Buhrmann slipped 65 cents to €16.25 on concern for the office goods group's 20 per cent stake in South African paper group, Sappi.

PARIS slid throughout the day before picking up strength in the afternoon while upbeat February consumer confidence figures provided little support. The CAC-40 ended 16.17 or 0.4 per cent lower to 4,139.80.

Most of the action came from volatile car part producer Valeo which surged for the second day running, adding €3.10 to €78. Analysts said Valeo may be benefiting from the good 1999 sectoral outlook in the US, where it made an acquisition last year. Speculation about a European acquisition were also said to be circulating.

Thomson-CSF continued its retreat ahead of its 1998 results published tomorrow. The share lost €1.90 or 6.3 per cent to €28.40 while Lagardère, which reports today, rose €1.50 to €35.50.

HELSINKI reached an all-time high for the second day running, with the Hex index up 44.09 to 6,378.90. Pohjola trimmed most of its early gains on profit-taking after jumping 8 per cent to a record intra-day high of €60.50. Shares in the insurer closed €1 higher to €57.

MILAN closed higher with a handful of blue chips pushing the market up and an inflow of funds supporting prices. The Mibtel index put on 319 to 24,644.

Fiat spurted 4.1 per cent to €2.80 after comments from honorary chairman Gianni Agnelli that it was hard to predict the group's future.

Chairman Paolo Fresco also indicated the group had not ruled out bidding for the bus and truck divisions of Sweden's Scania or pursuing an interest in remaining Volvo divisions.

Tim pared some gains but still closed 4.4 per cent higher at €6.39 on market speculation over a possible Telecom-Tim merger.

Olivetti bucked the trend to close 3.1 per cent lower at €2.79 on news that British fund manager Standard Life had the probable support of investors holding an extra 8 per cent of Telecom shares in addition to the 12 per cent it says are definitely against Olivetti's bid.

HDP put on 5.3 per cent to 60 cents on a report that the group's RCS Editori publishing business might be interested in buying the Telemontecarlo TV network.

MADRID ended off intra-day highs after depressed European markets and a drop in January consumer confidence ended early gains.

The general index closed 4 higher to 883.22, helped by news that the IMF had reached an agreement with Brazil securing future loans.

Companies with big Latin American exposure such as Banco Santander, up 54 cents to €19 and Telefónica, up 32 cents to €41.92, were the main beneficiaries.

Endesa advanced 0.9 per cent after Chilean pension funds called a new shareholder vote in its subsidiary Enersis, which could allow Endesa to get a majority stake in the company. The stock rose 21 cents to €23.89.

Written and edited by Michael Morgan, Bertrand Benoit, Peter Hall and Mark Herlihy

Mexico City adds to gains as peso rallies

MEXICO CITY pushed ahead strongly in early trading, adding to the gains of nearly 8 per cent built over the past three sessions.

The IPC index was up 105.80 or 2.4 per cent at 4,566.65 by midsession.

There was strong buying of blue chips as the peso rallied in the foreign exchanges and Wall Street reversed initial weakness. Telmex rose 75 centavos to 30.25 pesos and Televisa 3.40 pesos to 152.40. Retailer Cifra gained 28 centavos to 13.70 pesos.

SAO PAULO pared early gains to send the Bovespa index down 138 to 9,648 at midsession. Although Monday's accord with the International Monetary Fund brightened the Real, which jumped 2 per cent against the dollar, sentiment was said by traders to have taken an uncertain turn.

Jo'burg hits 7-month highs

SOUTH AFRICA

Johannesburg closed modestly higher, helped by gold-led gains that pushed the broad market to its highest intraday levels for seven months. The overall index closed 11.4 up at 6,286.6, off a high of 6,342.4, a level last hit in August at the height of the rand and global emerging markets crisis.

Golds put on 27.8 at 992.4 after breaking above the 1,000-point level for the first time in three months. Industrials rose 54.3 to 7,295.7. De Beers tumbled 600 cents to R100 after it reported a sharper slide than expected in full-year earnings.

Nikkei jumps back above 15,000

ASIA PACIFIC

Shares in **TOKYO** closed above 15,000 yesterday for the first time in more than three months, buoyed by a surge in high-techs and news of Sony's restructuring, *writes Alexandra Nusbaum.*

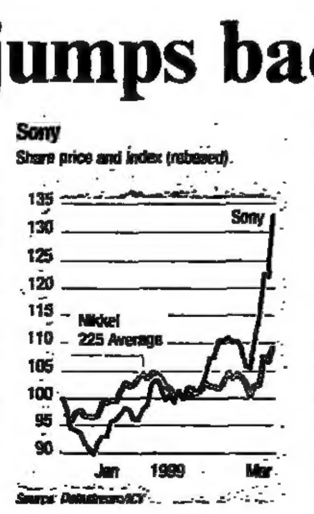
The Nikkei 225 Average gained 317.65 or 2.2 per cent to 15,096.70, its session high. The low was 14,842.17. The Nikkei 300 climbed 3.46 to 232.82 and the Topix index of all first-section issues jumped 14.76 to 1,162.51.

Momentum was positive with rising shares outpacing fallers by 646 to 522.

Sony, the electronics giant, soared 8.9 per cent or Y890 to Y10,940 on news of a restructuring that would cut 17,000 jobs over four years and transform three affiliates into wholly owned subsidiaries by January.

Stocks in Sony's three affiliates surged. Sony Music Entertainment climbed to its maximum daily limit of Y1,000 to Y8,250. Sony Precision Technology was up Y300 to Y2,030 and Sony Chemicals Y500 to Y5,250.

The electric machinery sector climbed 3.1 per cent, with Hitachi up 5 per cent or



Y41 at Y806. Toshiba climbed 4.8 per cent or Y39 to Y813. NEC rose Y45 to Y1,270.

The yield on Japan's 10-year government bond rose 7.5 basis points to 1.7 per cent following comments by Masaru Hayami, governor of the Bank of Japan, that he expected a rise in interest rates.

The interest rate sensitive real estate sector rose 2.6 per cent, with Mitsubishi Estate climbing Y49 or 4 per cent to Y1,239. Mitsui Fudosan was up Y19 or 2 per cent at Y976.

The banking sector closed up 1.2 per cent, with Fuji Bank gaining 5.8 per cent or Y30 to close at Y517. Industrial Bank of Japan climbed 3.5 per cent or Y22 to Y630.

In Osaka, the OSE rose 86 to 15,667.

HONG KONG got a boost from Microsoft's planned co-operation with Hongkong Telecom and the government's Cyberport project. The Hang Seng index closed 268.96 or 2.6 per cent higher at 10,532.95 in moderate turnover of HK$5.6bn.

Speculative buying drove Telecom up to a high of HK$14.90 before pulling back to close 20 cents easier on the view that while the co-operation agreement was welcome, it was unlikely to have much impact on earnings for some years.

MANILA moved lower. A wobble for the peso prompted a partial unwinding of the gains built up over the two previous sessions. Brokers said sentiment had been unsettled by the peso breaking back above 39 to the dollar. The composite index closed off 29.87 or 1.5 per cent at 1,998.41.

Financials were in the firing line. Ayala Land lost 50 centavos at 12 pesos and Metropolitan Bank retreated 5 pesos to 295 pesos.

BANGKOK tumbled 2.1 per cent as investors took profits in a dozen small companies that could be delisted as part of a recent move by the stock exchange.

Investors were also concerned about a batch of financial reform bills now passing through parliament. They feared the adoption of the bills, which are facing opposition in the senate, could be delayed until the end of the session on March 22, undermining the rebound of the Thai economy.

The SET index closed 7.09 lower at 329.59.

KUALA LUMPUR surged 2.1 per cent on index-buying by foreign funds and large trades by unidentified local buyers that suggested the government was trying to boost sentiment artificially ahead of elections in the Borneo state of Sabah.

The composite index gained 10.67 to 530.53.

Conglomerate Renong and its partner UEM contributed to the upbeat mood by announcing a substantial debt restructuring plan, but the move hardly reflected on shares. Renong was down 0.5 cents to 80 cents and UEM unchanged at M$3.19.

EMERGING MARKET FOCUS

Caracas suffers amid reforms

Venezuela's stock market, the world's best performing only three years ago, has all but disappeared from view.

Following a drop of 25 per cent for the year to date in dollar terms, transactions have come to a standstill. Daily volumes, once around $15m-$20m, have shrunk to an average $1m and touched $630,000 last week.

The list of investor concerns is long. The economic recession is deepening, the price of oil – the country's main source of income – remains depressed, while the government struggles with a widening budget deficit caused by a collapse in oil revenue. To top it off, political uncertainty promises to linger on the horizon for much of the year.

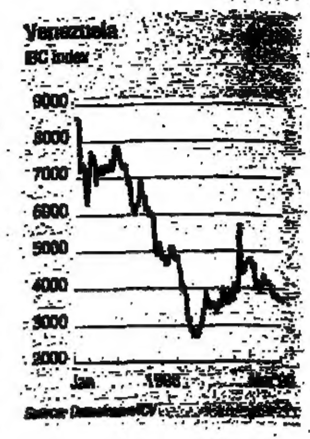
Emergency tax and budget reform measures would raise only 3 to 4 per cent of gross domestic product, according to BBO, a local brokerage. Even after the measures, "the budget deficit remains at 7 per cent and the government seems to have no idea of how to reduce it further," BBO says.

Many investors feel Hugo Chávez, who took office as president in February, is concerned more with his radical political reform agenda than with the country's economic challenges.

His plans for an assembly with powers to rewrite the constitution opens the way for prolonged uncertainty. The assembly is to start this year and could last six to 12 months.

"As long as the political noise over this assembly does not subside and the government does not present a coherent economic plan, there will be no major commitments by investors," said Gabriel Osio, president of Econoinvest, a local brokerage. "I think we'll see this situation continue at least for another six months."

Meanwhile, the economic recession is deepening. The government last week admitted the economy would do well to contract by only 1 per cent of GDP. Private sector economists foresee negative growth of between 2 and 4 per cent of GDP.



Already hit by high interest rates, all but a few Venezuelan companies now face a dramatic collapse in consumer demand and struggle to pay loans taken out during the promising upswing of 1997 and early 1998.

The woes of paper manufacturer, Venepal, struggling to restructure its $68m foreign debt, is indicative of corporate Venezuela. Bad loans now represent nearly 6 per cent of the banking sector's loan portfolio, up from 3 per cent a year ago.

The book value of many companies far exceeds their capitalisation, and some analysts believe they can spot value, despite the gloomy economic outlook.

Yet as Gonzalo Alonso, a trader with Activalores brokerage, says: "It doesn't make sense to talk about values. It's been some time since the market has responded to fundamentals." Mr Alonso's recommendation to clients is to "go for liquidity". That, he admits, leaves just half a dozen blue chips, such as the telecommunications provider CANTV and the power utility Electricidad de Caracas.

Raymond Colitt